

NATIONAL AFFORDABLE HOUSING ACT

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS
OF THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDREDTH CONGRESS
SECOND SESSION
ON
THE GOAL TO IMPLEMENT AN EFFECTIVE NEW NATIONAL HOUSING
POLICY

SEPTEMBER 14, 21, 22, AND 28, 1988

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NATIONAL AFFORDABLE HOUSING ACT

WEDNESDAY, SEPTEMBER 14, 1988

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 9:30 a.m. in room SD-538, Dirksen Senate Office Building, Senator Alan Cranston (chairman of the subcommittee) presiding.

Present: Senators Cranston, Proxmire, Sarbanes, Dixon, Sasser, D'Amato, Hecht, Chafee and Heinz.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. The hearing will come to order.

I welcome all of you this morning. Today, we hold the first of four hearings that will be very important to the subcommittee as we draft the National Affordable Housing Act.

Twenty months ago I assumed the chairmanship of this subcommittee with a deep conviction that the Federal Government in recent years has been showing too little concern about Americans' need for decent, affordable housing.

Recent trends are disturbing. A new generation of Americans senses the dream of homeownership drifting beyond reach. Working families find it harder to afford suitable rental housing and the poor are increasingly threatened with homelessness.

Housing policies for the past few years will soon make matters much worse. The trends are beginning to jeopardize a vital part of the American way of life. The advent of a new President and a new Congress provides a very exciting challenge to those who care about affordable housing. I am confident we will step up to and meet that challenge.

I have been greatly encouraged by the remarkable outpouring of enthusiasm and sound thinking that has come from my colleagues in Congress and from housing leaders in recent months. I find a strong consensus that we can neither continue current housing neglect nor return to the terminated programs of the past.

I find a fresh willingness among different housing groups to work together to shape an effective new housing policy.

The immediate challenge is to draft legislation that builds on the solid work of the National Housing Task Force, of the MIT Housing Policy Project, and of the many other organizations that have been carefully rethinking national housing policy.

We must be ready to move quickly in the early months of a new administration and a new Congress. The full goal must be to imple-

ment an effective new national housing policy, a policy recognizing the support for affordable housing as an investment is a long-term national asset, the policy building and ongoing partnership of private industry, nonprofit organizations and government at the Federal, State and local levels.

Passage of a National Affordable Housing Act will be vital but it can only be one part of what must be done to achieve that housing goal. Action of the Banking Committees must be meshed with actions of the Tax Committees, the Budget Committees and the Appropriations Committees. To accomplish all of that will require a great degree of collaboration and cooperation within Congress and consistent strong support from the new President. It will require a renewed degree of collaboration on housing within the Congress and between the White House and Congress.

I will work between now and the election to lay the groundwork for that collaboration. Al D'Amato and I intend to contact the new President-elect, whoever it turns out to be, right after election day to give him the legislation we have drafted and to offer him our cooperation in refining a bill for introduction as soon as the new Congress convenes. We decided not to introduce our own measure so that we can make it a joint measure—and I trust we can—with the next President. If we introduced a bill now, the next administration might want to make changes to make it their own. This way we hope we can have a collaborative effort.

We have already made extraordinary progress, but much hard work remains to be done. To move the process along, I asked the Housing Subcommittee staff to prepare preliminary but detailed concept papers for a National Affordable Housing Act and I asked that the concept papers be distributed to stimulate the widest possible participation in drafting the legislation. Those steps have been taken.

The ideas in these concept papers will, of course, be substantially refined, expanded and reformulated in the weeks ahead, but I think the concept papers set out an excellent framework, one that has emerged from many discussions during the past year.

I very much appreciate the care with which the concept papers are being reviewed. A large number of useful comments have already been received. I look forward to receiving additional recommendations today and in the next three scheduled hearings.

We are honored to have an outstanding group of witnesses this morning, among them the two men who led our task force, Jim Rouse and David Maxwell, whose spadework has been tremendously helpful in setting our agenda. You have all contributed enormously to our progress on housing policy. I thank you. I look forward to your testimony.

Many organizations have asked to testify in these hearings. Since we tried to accommodate as many as possible, we have a very full schedule. I ask each of you to summarize your testimony briefly so that we will have sufficient time for questions. The full statements you prepared in the cases where you have will appear in the record.

Let me say before we proceed that Senator Riegle intended to attend this morning but he is unable to, due to an unexpected trip

to Michigan to examine the appearance of medical wastes on the shores of Lake Michigan.

I also want to apologize for the fact that due to another committee's executive session that I have to attend, I will be running in and out, but I will be here most of the morning I believe. Other members of the committee will be here to carry on.

I now turn to the first member of this panel, Jim Rouse, the National Housing Task Force Chairman. Before I do so, Al D'Amato has arrived and I want him to make his opening statement. Al, I said in your absence that, among other things, the moment a new President is chosen, you and I will submit to that President our recommendations for legislation on the housing front in order to get a collaborative effort going instantly with the next President and the next administration, whoever it turns out to be.

I now yield to my collaborator and partner in this effort. We've had a magnificent bipartisan effort going. We plan to continue it. And because of it I believe we will be able to move effective legislation forward in the next Congress.

OPENING STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. Thank you, Mr. Chairman. I'm pleased to join you in this series of hearings on various approaches embodied in the concept papers to the National Affordable Housing Act.

You and I initiated this effort well over a year ago, Mr. Chairman. We've received substantial assistance, much from the gentlemen and others who will be at this panel and other hearings, from the academic community as well, private housing practitioners, and interest groups around the Nation. With this help, I am hopeful that we are on the way to making the housing needs of this Nation an appropriate priority.

I cannot really begin this hearing, Mr. Chairman, and it would be inappropriate without one other comment. This effort, Mr. Chairman, would not have happened without you. Two years ago, housing was in a very difficult situation. Housing interests were marked by low morale. Many of these groups were disjointed and at times adversarial. There was little, if any, attempt by Congress, the administration or interest groups to work together to address housing problems.

Today, that atmosphere has changed. Housing communities are discussing problems with the intention of finding solutions. They are seeking new ways of providing better, more affordable housing. They are committed to working together to address some overwhelming housing problems affecting all ends of the economic spectrum, moderate income families as well as people who live on the streets.

This change has occurred primarily because of you, Mr. Chairman, and I want to take this opportunity to publicly recognize that fact. Without Senator Alan Cranston, without a dedicated staff, without the leadership that he has demonstrated in bringing together all of the various forces, we would not be in the position I believe to go to the next President of this Nation with a program, with a package in hand, to do the business of the people.

So, Mr. Chairman, I'm going to ask that the balance of my remarks be included in the record as if read in their entirety. Let me say to Mr. Rouse and Mr. Maxwell and to all of those who have worked with them during this period of time, we are deeply appreciative and grateful for your efforts, for your contributions, for your perspicacity in undertaking a very difficult task and I do believe that the people of this country will be the beneficiaries of this work and your untiring efforts come next year. —

Thank you, Mr. Chairman.

[Complete prepared statement of Senator D'Amato follows:]

STATEMENT OF SENATOR D'AMATO
HEARING ON CRANSTON-D'AMATO "CONCEPT PAPERS"

Alfonse D'Amato

JULY 14, 1988

MR. CHAIRMAN, I AM PLEASED TO JOIN YOU IN THIS SERIES OF HEARINGS ON VARIOUS APPROACHES, EMBODIED IN "CONCEPT PAPERS," TO THE NATIONAL AFFORDABLE HOUSING ACT. YOU AND I INITIATED THIS EFFORT WELL OVER A YEAR AGO. WE HAVE RECEIVED SUBSTANTIAL ASSISTANCE AND SUPPORT FROM THE ACADEMIC COMMUNITY, PRIVATE HOUSING PRACTITIONERS, AND INTEREST GROUPS AROUND THE NATION. WITH THIS HELP OF THESE GROUPS, I AM HOPEFUL THAT WE ARE ON OUR WAY TO MAKING THE HOUSING NEEDS OF THIS NATION AN APPROPRIATE PRIORITY.

I CANNOT BEGIN THIS HEARING WITHOUT MAKING ONE OTHER COMMENT. THIS EFFORT, MR. CHAIRMAN, WOULD NOT HAVE HAPPENED WITHOUT YOU. TWO YEARS AGO, HOUSING WAS IN A VERY DIFFICULT SITUATION. HOUSING INTERESTS WERE MARKED BY LOW MORALE. MANY OF THESE GROUPS WERE DISJOINTED AND, AT TIMES, ADVERSARIAL. THERE WAS LITTLE, IF ANY, ATTEMPT BY CONGRESS, THE ADMINISTRATION, OR INTEREST GROUPS TO WORK TOGETHER TO ADDRESS HOUSING PROBLEMS.

TODAY, THE ATMOSPHERE HAS CHANGED. HOUSING COMMUNITIES ARE DISCUSSING PROBLEMS WITH THE INTENTION OF FINDING SOLUTIONS. THEY ARE SEEKING NEW WAYS OF PROVIDING BETTER,

MORE AFFORDABLE HOUSING. THEY ARE COMMITTED TO WORKING TOGETHER TO ADDRESS SOME OVERWHELMING HOUSING PROBLEMS AFFECTING ALL ENDS OF THE ECONOMIC SPECTRUM -- MODERATE INCOME FAMILIES AS WELL AS PEOPLE WHO LIVE ON THE STREETS.

THIS CHANGE HAS OCCURRED PRIMARILY BECAUSE OF YOU, MR. CHAIRMAN, AND I WANT TO TAKE THIS OPPORTUNITY TO PUBLICLY RECOGNIZE THAT FACT.

THESE "CONCEPT" PAPERS CONSTITUTE AN OUTLINE OF A NATIONAL AFFORDABLE HOUSING ACT, COMPREHENSIVE HOUSING LEGISLATION INTENDED TO ADDRESS A BROAD ARRAY OF HOUSING PROBLEMS. ALTHOUGH I HAVE SOME CONCERNS ABOUT SOME DETAILS IN THE CONCEPT PAPERS, I AM PLEASED WITH THE OVERALL FRAMEWORK. THIS FRAMEWORK WILL BE USEFUL AS SENATOR CRANSTON AND I WORK WITH A NEW ADMINISTRATION IN DEVISING HOUSING POLICY.

THE PROPOSALS CAN BE DIVIDED INTO THREE MAJOR SECTIONS -- A HOMEOWNERSHIP SECTION, AN AFFORDABLE RENTAL HOUSING SECTION, AND A SPECIAL NEEDS SECTION. ALL THREE ARE DESIGNED TO MEET THE NEEDS OF A SPECIFIC POPULATION. ALL THREE ARE INTENDED TO SOLVE CURRENT PROBLEMS WHICH WILL WORSEN WITHOUT IMMEDIATE ACTION.

THE PROPOSED FRAMEWORK REPRESENTS CERTAIN IDEAS THAT WE KNOW WORK. FIRST, THESE PROPOSALS AIM TO GET FEDERAL FUNDING

DOWN TO THE STATE AND LOCAL LEVEL IN A STREAMLINED MANNER. SECOND, THEY RECOGNIZE THE VITAL ROLE OF THE PRIVATE SECTOR. AS IN THE UDAG PROGRAM, PUBLIC DOLLARS MUST LEVERAGE PRIVATE FUNDING. PUBLIC-PRIVATE PARTNERSHIPS ARE ESSENTIAL FOR SUCCESS. THIRD, NON-PROFIT ORGANIZATIONS MUST INCLUDED AND USED MORE FULLY. AS WE LOSE MORE AND MORE OF OUR HOUSING STOCK, WE MUST SUPPORT GROUPS THAT ASSIST INDIVIDUALS WHO ARE MOST IN NEED.

MR. CHAIRMAN, I WILL ATTACH A BRIEF SUMMARY OF THE COMPONENTS OF THESE PROPOSALS. I HAVE ALREADY RECEIVED NUMEROUS COMMENTS FROM ORGANIZATIONS AROUND THE COUNTRY. I AM PLEASED TO SAY THAT MOST ORGANIZATIONS APPROVE OF AND SUPPORT THE GENERAL DIRECTION IN WHICH WE ARE HEADING. YOU ARE TO BE COMMENDED FOR THAT, MR. CHAIRMAN.

NOW WE ARE READY TO GET DIRECT FEEDBACK ABOUT THE SPECIFICS OF THE STAFF CONCEPT PAPER RECOMMENDATIONS. I LOOK FORWARD TO WORKING WITH YOU AS WE CONSOLIDATE THIS FEEDBACK INTO A VISION FOR HOUSING FOR THE NEXT DECADE.

THANK YOU, MR. CHAIRMAN.

Senator CRANSTON. Thank you, Al, very, very much. I appreciate your good comments and your partnership.
 Senator Sasser.

OPENING STATEMENT OF SENATOR SASSER

Senator SASSER. Thank you, Mr. Chairman.

I'm pleased to have before us today this extensive staff recommendation for a National Affordable Housing Act. Legislation on affordable housing and the national housing crisis cannot come a day too soon and I am pleased to have this very distinguished panel appearing here today that knows probably as much about housing and the problems of housing and the solution to those problems as any four men in the country.

Homeownership, one component of affordable housing, was simply taken for granted a generation ago, taken for granted by those of my generation quite frankly; but today potential first-time home buyers are finding a very, very different situation and finding it very, very difficult to purchase their first home. They save and save and save for a downpayment, but home prices and rents rise faster than their incomes. Young people end up shoveling more and more money out the window for rent instead of making an investment in a home, an investment in their future.

Now surveys show that 9 out of 10 adults under the age of 35 years regard homeownership as their highest personal priority. Yet this goal is becoming increasingly impossible to attain for the majority of young Americans.

Since 1980, after rising for over four decades, the rate of homeownership has begun a steady decline. Indeed, many young Americans between the ages of 25 and 34 years of age, homeownership has declined by a shocking 20 percent since 1980.

Saving for the downpayment is the problem. That's the meat of the coconut. They simply do not have the downpayment. In 1987, the average first-time home buyer purchasing the average priced home actually had to pay down \$20,000.

Now, as we all know, homeownership is only one component of the housing crisis that this country faces. Indeed, I think it's a national disgrace that we have a homeless population in this country today. One-quarter of this homeless population is made up of families and one-quarter of the homeless population are people who work. They're employed, yet they simply don't have a home. They have to live in the street because they can't afford even to rent.

But the enormous obstacles that young people face today in achieving homeownership has a significant impact on the homeless in our streets. When young people can't buy a home, their first home, it means that you've got more people renting. It means that people pay more to rent because there's more demand for rental housing, and as rental housing becomes more expensive, it forces people at the bottom of the socioeconomic ladder into the streets. It's estimated that well over 10 million low income households today pay over one-half of their income for rent, more than triple the number that did so at the end of the last decade or 1980.

Now when families have to pay out so much for rent, you can see why they often can't avoid the indignity and the danger of living

on the streets. We need to start moving young families and the poor in this country into homes that they can afford to own and homes they can afford to rent.

Last May, in order to meet this goal, Senator Heinz and myself introduced the Home Ownership Assistance Act. Indeed, many of our colleagues on the committee are cosponsors. So I am particularly pleased that the subcommittee staff has included most of the provisions of the Home Ownership Assistance Act in the concept papers that we have before us today.

The Home Ownership Assistance Act expands the program of the Federal Housing Administration in ways that will be particularly helpful to first-time home buyers.

Mr. Chairman, I'll just briefly review these because I think it's worth doing here this morning. First, it lowers the required FHA downpayment. It will also ensure that home buyers have equal access to FHA mortgages in all areas of the country. Finally, it provides for FHA insurance on the most widely used form of adjustable rate mortgage.

The bill that Senator Heinz and I have introduced utilizes a proven and money-making program, the FHA. Indeed, the Congressional Budget Office projects that the Sasser-Heinz bill will raise between \$200 and \$800 million in net Federal revenues over the next 5 years. But most important, it will help get young families into homes that they own. It will help restore the dream of homeownership to a generation of young Americans that sees that dream go fleeting, a generation that thought they would have the same opportunities as their parents but instead have run smack into a housing crisis that has lasted since 1980.

Now I'm going to work to see that the provisions of the Sasser-Heinz bill are enacted as part of the sweeping rewrite of our national housing laws. We need to develop an innovative and comprehensive attack on all aspects of this exploding housing crisis, now before it snowballs out of control, and I hope these hearings will show us that we're on the right track and I'm confident that they will.

Thank you, Mr. Chairman.

Senator CRANSTON. Thank you very much.

Senator Sarbanes.

OPENING STATEMENT OF SENATOR SARBANES

Senator SARBANES. Thank you very much, Mr. Chairman. Unfortunately, I have a markup scheduled in another committee.

Senator CRANSTON. So have I.

Senator SARBANES. Yes, where we must be present, but I wanted to come this morning to underscore the importance of these hearings because I think we are now moving into the final stages of developing significant and important new national housing legislation.

Mr. Chairman, I want to commend you and Senator D'Amato for your initiative in moving this matter forward, initiating the review of national housing policy, establishing the National Housing Task Force, which Mr. Rouse and Mr. Maxwell cochaired with such

great ability, and for your other efforts over the past year to contribute to the debate on this important question.

It's my own view that this effort in the near future—and by that I'm really thinking of early in the next Congress—will lead to legislation that will shape housing policy for many years to come. It's my own very strong hope that the enactment of national affordable housing legislation will restore our commitment to the housing goal in the 1949 act of "a decent and suitable living environment for every American family."

We have made significant progress since Franklin Roosevelt spoke of "a nation one-third ill-housed," ill-nourished and ill-clad, incidentally; and many of these gains have been made as the result of important programs and policies at the Federal level which have encouraged homeownership, provided affordable public and private housing for the poor, and addressed the housing needs of special populations.

Of course, those gains in housing our citizens would not have been possible without the significant contribution of many important factors in the private sector and the efforts at the public level—not only at the Federal level but at State and local levels as well.

There's millions of American families today with serious housing problems. The homeownership rate has been declining in recent years. The number of low-income households that pay more than 50 percent of income for rent has almost doubled, reflecting a disturbing trend as the supply of low-rent units decline.

The homeless population is growing. The supply of low and moderately priced housing is dwindling and there are extraordinarily long waiting lists for public housing.

Throughout these developments and contributing to them have been dramatic cutbacks in Federal housing programs. There have been efforts by groups and individuals in the public and private and nonprofit sectors to address the worsening housing crisis and I particularly want to commend Mr. Rouse and the Enterprise Foundation. I was present actually when the Maryland Association of Home Builders made a contribution of \$1 million to that effort in their own way to try to directly contribute toward providing affordable housing.

My own view, however, is that all of these efforts cannot begin to meet the need without establishing a comprehensive overall national housing policy to which all sectors can relate and join together in a comprehensive partnership effort.

Many of the groups and individuals that have participated in this effort to address the housing crisis are scheduled to take part in these hearings and I very much welcome their testimony.

I simply want to close by again underscoring the very valuable contribution which I think the National Housing Policy Task Force, chaired by Mr. Rouse and Mr. Maxwell, have made. It's very appropriate that they should be the lead witnesses for this series of hearings and I'm also delighted to see my old colleague and good friend, Henry Reuss, who exercised such strong and positive leadership in the Congress for many years, not only on the housing issue but on many, many other issues as well.

Thank you very much, Mr. Chairman.

Senator CRANSTON. Thank you very much.
Senator Dixon.

OPENING REMARKS OF SENATOR DIXON

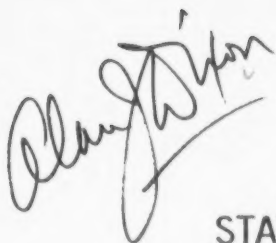
Senator DIXON. Mr. Chairman, I'm pleased to be here this morning to receive public testimony on a set of staff concept papers for the development of a National Affordable Housing Act and I want to commend you and Senator D'Amato for taking the lead on this proposal which will build on recommendations from the National Housing Task Force and other leading housing organizations.

I support the approach of the concept papers which stresses that Federal support for affordable housing is a vital investment in a long-term national asset. Additionally, I support the partnership arrangement that is proposed between private industry, nonprofit organizations, and government at the Federal, State and local levels.

Mr. Chairman, I will place the balance of my remarks in the record.

Senator CRANSTON. I also have statements from Senators Garn, Heinz, and Chafee.

[Complete prepared statements of Senators Dixon, Garn, Heinz, and Chafee follow:]



STATEMENT BY SENATOR ALAN J. DIXON
HOUSING SUBCOMMITTEE HEARING ON THE
STAFF CONCEPT PAPERS FOR A NATIONAL
AFFORDABLE HOUSING ACT

SEPTEMBER 14, 1988

MR. CHAIRMAN, I AM PLEASED
TO BE HERE THIS MORNING TO RECEIVE
PUBLIC TESTIMONY ON A SET OF STAFF
CONCEPT PAPERS FOR THE DEVELOPMENT
OF A NATIONAL AFFORDABLE HOUSING
ACT.

I COMMEND YOU AND SENATOR
D'AMATO FOR TAKING THE LEAD ON THIS
PROPOSAL WHICH WILL BUILD ON

RECOMMENDATIONS FROM THE NATIONAL HOUSING TASK FORCE AND OTHER LEADING HOUSING ORGANIZATIONS.

I SUPPORT THE APPROACH OF THE CONCEPT PAPERS WHICH STRESSES THAT FEDERAL SUPPORT FOR AFFORDABLE HOUSING IS A VITAL INVESTMENT IN A LONG-TERM NATIONAL ASSET. ADDITIONALLY, I SUPPORT THE PARTNERSHIP ARRANGEMENT THAT IS PROPOSED BETWEEN PRIVATE INDUSTRY, NON-PROFIT ORGANIZATIONS, AND GOVERNMENT AT THE FEDERAL, STATE, AND LOCAL LEVELS.

MR. CHAIRMAN, THE PAPERS BEGIN WITH WHAT I BELIEVE TO BE AN

EXCELLENT CONCEPT: THAT WE SHOULD BUILD ON WHAT WORKS.

I CALL TO THE COMMITTEE'S ATTENTION A PROGRAM THAT WE KNOW IS WORKING, THE NEIGHBORHOOD HOUSING SERVICES (NHS) NETWORK. FOR MORE THAN 15 YEARS, THIS NETWORK HAS BUILT A TRACK RECORD OF SUCCESS IN TURNING DECLINING NEIGHBORHOODS INTO SAFE, HEALTHY COMMUNITIES FOR THE BENEFIT OF THEIR CURRENT RESIDENTS.

THROUGH WORKING PARTNERSHIPS OF RESIDENTS, LOCAL BUSINESSES AND GOVERNMENTS, THE NHS NETWORK HAS GENERATED OVER \$4 BILLION REINVESTMENT IN HUNDREDS OF PREVIOUSLY

PAGE 4

DETERIORATING NEIGHBORHOODS IN
CITIES, TOWNS AND RURAL COMMUNITIES
ACROSS THE COUNTRY.

IN MY OWN STATE OF ILLINIOS,
NHS NETWORK IS A SUCCESSFUL PROGRAM
THAT IS OPERATING IN THE CITIES OF
AURORA, CHICAGO, ELGIN, KANKAKEE,
PEORIA, AND QUINCY.

MR. CHAIRMAN, I LOOK FORWARD
TO WORKING WITH THE COMMITTEE IN
BUILDING ON THE NHS NETWORK AND
OTHER SUCCESSFUL PROGRAMS, AND
DEVELOPING NEW INNOVATIVE
INITIATIVES THAT WILL PRODUCE AN
ADEQUATE SUPPLY OF AFFORDABLE
HOUSING FOR ALL AMERICAN CITIZENS.

STATEMENT OF SENATOR GARN

SEPTEMBER 14, 1988

MR. CHAIRMAN, TODAY OPENS FOUR DAYS OF HEARINGS IN THE SUBCOMMITTEE ON POSSIBLE AVENUES OF SOLUTION TO MANY OF TODAY'S HOUSING PROBLEMS.

I SUPPORT THE IDEA THAT INDIVIDUALS SHOULD BE GIVEN INCENTIVE TO SAVE FOR THE ESSENTIAL DOWNPAYMENT FOR THEIR FIRST HOME. THE AMERICAN DREAM OF HOMEOWNERSHIP IS INCREASINGLY OUTSIDE THE GRASP OF MANY AMERICAN FAMILIES DUE TO INFLATION, LACK OF HOUSING IN MANY HEAVILY POPULATED AREAS, AND THE COST OF LIVING OUTPACING EARNINGS.

HOWEVER, I FRANKLY DISAGREE WITH THE NOTION OF CREATING NEW BUREAUCRACY AT THE DEPARTMENT OF HOUSING AND URBAN ~~AFFAIRS~~ ^{DEVELOPMENT}. IN THE WORDS OF HENRY DAVID THOREAU, "SIMPLIFY, SIMPLIFY." REORGANIZING OR CREATING A NEW BRANCH OF BUREAUCRACY WITH ITS OWN NEW RED TAPE, TAKES UP VALUABLE TIME AND WASTES RESOURCES THAT COULD BE BETTER SPENT DIRECTLY TARGETED TO SOLVE THE HOUSING PROBLEMS FACING US TODAY.

IT SEEMS TO ME THAT THE IDEA OF "PROVIDING FEDERAL SUPPORT TO STATE AND LOCAL STRATEGIES THAT EXPAND THE SUPPLY OF AFFORDABLE HOUSING" IS ONE OF HUD'S PRIMARY PURPOSES AND IT WOULD BE ONLY REDUNDANT TO CREATE A NEW MINI-BUREAUCRACY TO THAT PURPOSE.

OPENING STATEMENT OF SENATOR JOHN HEINZ
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

SEPTEMBER 14, 1988

John Heinz

MR. CHAIRMAN, THIS HEARING SIGNALS THE BEGINNING OF THE LEGISLATIVE PROCESS TO CREATE THE LAW WHICH WILL SHAPE OUR NATIONAL HOUSING POLICY TO CARRY US INTO THE 21TH CENTURY. HOWEVER, THIS HEARING IS NOT THE FIRST STEP IN DEVELOPING OUR NATIONAL HOUSING POLICY.

ONE YEAR AGO, MR. CHAIRMAN, THANKS TO YOUR AND SENATOR D'AMATO'S FORESIGHT, THE NATIONAL HOUSING TASK FORCE WAS FORMED. CHAIRED BY TWO OF THE MOST WELL-RESPECTED LEADERS IN THE HOUSING FIELD, JAMES ROUSE AND DAVID MAXWELL, AND STAFFED BY A DISTINGUISHED GROUP OF TALENTED HOUSING EXPERTS, IT WAS NO SUPRISE THAT THE TASK FORCE MET THE CHALLANGE OF PROVIDING WORKABLE RECOMMENDATIONS ON HOW TO COMBINE PUBLIC AND PRIVATE POLICIES AIMED AT ASSURING THAT ALL AMERICANS HAVE A DECENT PLACE TO LIVE. WITH THE BLUEPRINT PROVIDED TO US BY THE TASK FORCE, WE CAN NOW FORGE AHEAD TO DRAFT THE LEGISLATION NECESSARY TO IMPROVE THE HOUSING SITUATIONS FOR ALL AMERICANS.

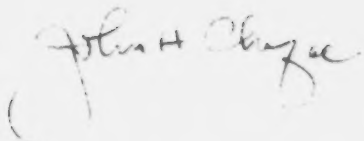
GIVEN THE CHALLENGE TO PRODUCE A FEDERAL HOUSING POLICY THAT IS RESPONSIVE TO THE NEEDS OF MODERATE- AND LOW-INCOME PEOPLE WHILE BALANCING OUR FEDERAL BUDGET DEFICIT, WE NEED TO CRAFT PROGRAMS THAT WILL EFFICIENTLY DRAW ON THE RESOURCES OF THE GOVERNMENT AND THE PRIVATE SECTOR TO GUARANTEE THE AVAILABILITY

OF AFFORDABLE HOUSING. I BELIEVE THAT WE MUST TAKE A COMPREHENSIVE APPROACH THAT COMBINES BOTH TAXING AND SPENDING TOOLS THAT WILL ENCOURAGE PRIVATE SECTOR INVOLVEMENT IN MEETING THE HOUSING NEEDS OF ALL INCOME AND SPECIAL NEEDS GROUPS.

AS A MEMBER OF THE FINANCE COMMITTEE AS WELL AS THIS COMMITTEE, I INTEND TO PLAY AN ACTIVE ROLE IN THE DEVELOPMENT OF THIS LEGISLATION. I LOOK FOWARD TO WORKING WITH MY FELLOW COMMITTEE MEMBERS, MEMBERS OF THE TASK FORCE, AND OTHER INTERESTED PARTIES IN ADDRESSING WHAT IS TRULY ONE OF THE MOST URGENT AND IMPORTANT PROBLEMS WE FACE AS A NATION.

ONE OF THE COMPONENTS OF TODAY'S HOUSING PROBLEMS THAT I AM MOST INTERESTED IN THE AFFORDABILITY OF HOME^{ownership}. OWNING A HOME IS A LARGE PART OF THE AMERICAN DREAM, BUT FOR TOO MANY FAMILIES, THE DREAM HAS BEEN DEFERRED. THEY CANNOT AFFORD THE FOUNDATION, LET ALONE THE HOUSE. SENATOR SASSER AND I INTRODUCED LEGISLATION (S. 2379, THE HOMEOWNER ASSISTANCE ACT OF 1988) TO IMPROVE THE OPPORTUNITIES FOR BUYING HOMES, ESPECIALLY FOR FIRST-TIME HOME BUYERS. HOMEOWNERSHIP RATES HAVE DROPPED SINCE THE BEGINNING OF THE DECADE, PARTICULARLY FOR YOUNG, MODERATE-INCOME FAMILIES - FOR THOSE IN THEIR LATE 20'S, THE RATE OF HOMEOWNERSHIP HAS DROPPED BY 16% SINCE 1979. I SUPPORT THE CONCEPTS OUTLINED IN THE HOMEOWNERSHIP CONCEPT PAPER, AS THEY ARE GENERALLY CONSISTENT WITH THE SASSER-HEINZ BILL.

I LOOK FOWARD TO HEARING FROM THE MEMBERS OF THE TASK FORCE AND THE HOUSING INDUSTRY THIS MORNING. THE TOPIC OF DISCUSSION, THE STAFF CONCEPT PAPERS AS THE PRECURSORS OF THE NATIONAL AFFORDABLE HOUSING ACT, INCORPORATE MANY OF THE TASK FORCE'S RECOMMENDATIONS AND PRESENT NEW IDEAS. ALTHOUGH MODIFICATIONS MAY BE NECESSARY, I BELIEVE THAT THE CONCEPT PAPERS COMPREHENSIVELY ADDRESS THE BROADER ISSUES OF CONCERN - HOMEOWNERSHIP, AFFORDABLE RENTAL HOUSING, AND HOUSING FOR OUR NEIGHBORS WITH SPECIAL NEEDS.



STATEMENT BY

SENATOR JOHN H. CHAFEE

IN THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

HEARINGS ON THE NATIONAL AFFORDABLE HOUSING ACT

September 14, 1988

MR. Chairman, I want to commend you and Senator D'Amato for scheduling this series of hearings on staff proposals for a new "National Affordable Housing Act."

In doing so you have advanced us one step closer to the goal of comprehensive housing legislation. In this task we are privileged to have the assistance of the expert panels of witnesses assembled here today.

Evidence of the need for a new commitment to housing is all around us, at every rung of the housing ladder. In homeownership, we see it in the fact that today's young couples can't come close to affording the homes they grew up in. In the rental market, we see it in huge disparities between rent increases and income increases. And, unfortunately, we see it on our city streets, in the increasing numbers of homeless people. Thus, any new housing

policy has a tall order to fill, and the opinions of these witnesses will be of tremendous help to us in our work.

Without taking much more of the Committee's time, I do want to make note of a few items I was was pleased to see in the staff concept papers. One is the need to extend mortgage revenue bond authority. I have been working in the Finance Committee to get the extension adopted before the end of the 100th congress.

Another is the endorsement of the use of IRAs or other self-funded pension plans for downpayments on first homes. I have introduced a similar proposal, the Homebuyers Savings Act, which would create a special savings account for downpayments similar to the IRA. Although the concept papers propose working through existing mechanisms, the principle is similar, and this indicates a growing consensus that some kind of tax preference for downpayment savings is in order.

In closing I would like to thank the witnesses who have come here today to share their expertise. Your input has been and will continue to be essential at every step of the way toward the goal we all share -- renewing the federal commitment to affordable housing.

Senator CRANSTON. Thank you very much.

Now we will first hear from Jim Rouse, who is the cochairman of the task force. We're delighted to have you here.

STATEMENT OF JAMES ROUSE, CHAIRMAN, THE NATIONAL HOUSING TASK FORCE; CHAIRMAN AND CEO, THE ENTERPRISE FOUNDATION, COLUMBIA, MD

Mr. ROUSE. Thank you, Senator.

Senator CRANSTON. I want to apologize for the fact I'm going to leave momentarily to go to the same place Paul Sarbanes has to go. We will be back and I will read your full testimony with deep interest.

Mr. ROUSE. Well, thank you for the opportunity to appear before you. It was my privilege, as you have noted, to serve as Chairman of the Housing Task Force, but really as a partner with David Maxwell in leading this Housing Task Force. We were asked to do this to prepare proposals for Congress and for a new administration. We were asked to select the task force, which we had the opportunity to do.

I will take a minute on the task force because I think its recommendations are enormously important. One of the reasons I think they are so important is because of the caliber of the task force itself and the intensity of attention that was given to these matters.

We asked 24 people to serve. Our criteria was that they be able, experienced, open, and caring. And no one turned us down, even though we warned them that this was going to be a very demanding program. In fact, we met nearly every week for 2 days and a night from early October until mid-December and then a smaller group of the task force met as a drafting committee into the end of February.

It was very diverse. It was conservative and liberal, if one can properly use those divisions. It was Republican and Democratic. It was private trade organizations and organizations or people from organizations who represented low-income people and public housing.

At the outset I assured the first meeting that we would not reach a unanimous report and that there would be open opportunity for dissent at any point, to be included in the report. We expected dissent. I frankly thought it might strengthen the report. But in fact we arrived at a unanimous report and we did so because everyone on that task force cared so deeply about coming up with the most rational, feasible, supportable set of proposals. You are justified in giving tremendous respect to the manner in which this was done. It's hard to conceive of a better group of people working more earnestly at a task than they did.

I'm here this morning to comment on the concept papers against the background of the task force report.

The concept papers on the whole are well done. They are earnest and sincere and they embrace many of the key proposals of the task force. I won't take time to point out all of the similarities between the two reports, but there are many. They are both comprehensive. They deal with first-time home buyers through to the

homeless as one must because unless we're dealing with the whole pattern and the totality of needs we're not really dealing with the housing program.

Now I will pay attention primarily to the differences in the two reports and comment on them. At the heart of the Housing Task Force report is the Housing Opportunity Program [HOP], we called it. This is the centerpiece of the report. It occupied hours of very earnest and sometimes fierce debate between the people with different points of view. It's here that the concept papers differ in matters of importance to the task force report.

MAIN FOCUS OF TASK FORCE

The task force early on focused on two important principles. First, that Federal funds must draw other funds. We could not rely on Federal funds alone. Second, that there must be a more effective system for putting Federal funds to work to meet housing needs—a simpler, more flexible, less bureaucratic system that would stimulate local initiatives, would help local communities meet their needs, be sensitive to those circumstances, both in needs and opportunities.

Thus, the program requires that there must be \$1 of State and local funds for each \$2 of Federal funds that go into this housing program.

The plan for doing it is surely not perfect, but it was carefully designed to be workable and to be as simple as possible and to be effective. The HOP system provides Federal funds directly to cities and States with the least possible regulation, with the greatest possible choice at the State and local level in their use to meet local needs.

The grants are accompanied by certain process regulations rather than criteria designing where the money will go. It requires the local community to lay out a plan of what its needs are and how the money is going to be used to meet those needs. It must then report how it has done in relationship to what it proposed. The result will have a serious impact on their future qualification for grants.

The funds are targeted to meet what the task force considered to be one of the greatest needs in the country, the housing needs of lower income people.

Half the money would go to the cities and half the money would go to the States. The money that goes to the cities provides that 80 percent of the money go to house people below 50 percent of median income and that 20 percent goes to people below 80 percent of median income.

It's important to know what that means. To many this looks like welfare people. Actually a person making \$10 an hour earns \$20,000 a year, well below 80 percent of median income, which would be \$24,000. Five dollars an hour makes \$10,000 a year and that's below the poverty level. In fact, 25 percent of all the jobs in America pay compensation that is below the poverty level.

Thirteen million families in the United States earn less than \$10,000 a year and nearly half, 42 percent, pay over 50 percent of

their income in rent. At \$7,000 a year income, nearly half pay 70 percent of their income in rent.

The poverty population has grown from 25 million to 32 million in the last 10 years and housing at \$250 a month or below has gone down by 2.5 million. So the need has increased enormously and the supply has declined enormously. Therefore, the homeless.

Some of the homeless are vagrants and others are people with mental difficulties, but there's a new homeless population today. We have never before in the history of the United States seen what we're seeing today—a man, woman, and child walking the streets at night looking for a place to sleep like stray animals.

This is a dreadful judgment on our society and it's getting worse. And it's going to continue to get worse.

A reporter asked me, "What do you see happening over the next 3 years?" I said, "There is no other hope but an increase in homelessness because there is no program to turn off the faucet and the faucet is the near-homeless. It's the people who are living in bad housing, paying more rent than they can possibly afford—one setback and they're on the street.

STANDARDS OF NATIONAL HOUSING LEGISLATION

Senator, the Housing Task Force program is intended to deal directly with that problem. Senator Cranston's standards which he gave in a recent talk were that new national housing legislation should provide Federal housing support that is understandable and straightforward at the national level and very flexible so that it can be adapted to differing local conditions. Second, build on what works and expand a system of responsive institutions; and third, address the housing needs of all Americans.

We think the Housing Task Force report does that, that it is understandable, straightforward, and flexible, that it eliminates red-tape, reduces bureaucracy, puts money in local hands efficiently, and meets local problems, that it permits the stimulation and support of the growing local initiatives, nonprofits, actions by churches, action by all kinds of groups across the country. There's a new wave of activity to house the poor and in supporting these programs the States and local governments will pay one-third of the total cost.

The concept papers, though thoughtful and sincere, do not seem to meet Senator Cranston's standards. What is essentially a Federal grant program is made, by the concept papers, to look like a Federal investment. I think it is a complicated and unnecessary system of forgivable debt; that it raises legal issues which will be difficult for local communities; that it requires the local governments to struggle once more to master a new, circuitous way of doing business.

We urge your closest attention to the task force proposals which we hope you will adopt. It is carefully crafted, clear, simple, and effective. It also provides for direct targeting to the poor. This is not included in the concept papers.

Poor has become a misunderstood word. Poor doesn't mean only people living on welfare. Poor means the working poor. It means people of \$10,000 to \$20,000 a year income.

Here's an article in the Washington Post of just 2 weeks ago:

A Steady Job But No Home. High Housing Costs Force Fairfax Family into Shelter. Regina Thomas isn't lazy. Every weekday she bundles up her two babies and takes them by bus to a sitter so she can care for people too old or ill to care for themselves. But despite her full-time \$13,000 a year as a nurse's aide, Thomas has found herself living in a place she once thought reserved for the incapable and indolent, a shelter for the homeless.

It also goes on to say that 83 percent of the 7,100 people who stayed in Northern Virginia shelters for the homeless last year held jobs, 49 percent worked full-time, and 67 percent arrived with another family member.

Senator SASSER. Mr. Rouse, could we make a copy of that Washington Post article a part of the record, please?

Mr. ROUSE. Yes, indeed.

[Washington Post article follows:]

A Steady Job But No Home

High Housing Costs Force Fairfax Family Into Shelter

By Mary Jordan
Washington Post Staff Writer

Regina Thomas isn't lazy. Every weekday, she bundles up her two babies and takes them by bus to a sitter so she can care for people too old or ill to care for themselves.

But despite her full-time, \$13,000-a-year job as a nurse's aide, Thomas has found herself living in a place she once thought reserved for the incapable and the indolent: a shelter for the homeless.

Thomas, 21, is one face in what social workers say is a swelling crowd of working homeless people.

Traditionally, shelters have been filled with the unemployed, mentally ill and angry. Often the homeless had drug and alcohol problems, and not uncommonly, they were war veterans. Although many fitting those descriptions are among the current homeless, a fast-growing number are fit and employed, but forced to live on the street with their families.

Almost 83 percent of the 7,100 people who stayed in Northern Virginia's shelters for the homeless last year held jobs and 49 percent of those worked full time, according to a study released last week by the Virginia Coalition for the Homeless. Sixty-seven percent arrived with another family member, the study said.

"As hard as I work, yes, I think I should be able to afford my own place," said Thomas, a single mother living in a Reston shelter. "I look in the paper every day and can't find anything under \$450 a month. That's all I can afford."

The average monthly rent for a Fairfax County apartment is \$662 and mandatory security deposits routinely run more than \$1,200, a difficult sum for heads of households earning \$5 to \$8 an hour.

Jobs paying that sum are plentiful in the Washington area, but homes and apartments affordable on that salary are not. The result, according to the coalition's study and interviews with local shelter workers, has been a transformation of this area's homeless population.

"People expect to see alien-looking people in shelters. The folks we serve are not," said David Morrisette, director of Maryland shelters for the Associated Catholic Charities of the Archdiocese of Washington. "Television cameras run down rows of people sleeping on cardboard boxes and that's what people think of as the homeless. That is not the norm."

Increasingly, working mothers like Regina Thomas, are.

With her name tag pinned to her crisp blue uniform, Thomas reached herself one recent morning for work at Cameron Glen Care Center, a nearby nursing home.

"I never thought I'd be here," said the slender woman who left the District's Cardoso High School one year shy of graduation.

For a while, Thomas lived with her mother in the District, but when her mother remarried last January, Thomas moved to her brother's apartment in Reston. There she stayed for six months with her children, 3-year-old Shalee and 11-month-old Shantae.

Then, the landlord discovered Thomas and six others were living in an apartment that permits no more than four.

"We didn't want everybody to get kicked out of the apartment, so we came here," Thomas said.

Evictions and foreclosures were the main reasons people sought shelter in Northern Virginia last year, the study reported. In the rest of the state, loss of jobs was the main factor.

On Thomas' first weekday at the shelter, two months ago, she rose early and applied for seven jobs before noon. Before she returned to the shelter that afternoon, four employers already had called the shelter, offering work.

Thomas took the highest paying: after 80 hours of training she now receives \$6.25 an hour.

Some employers who once wouldn't consider hiring a shelter resident are now so desperate they are glad to have them, social workers said. Others, like Jack Payne, the Cameron Glen administrator who has hired five Reston shelter residents this year, have found shelters a welcome source of workers.

"Employees in our facility don't earn \$35,000 and it's very difficult for these people to afford housing," Payne said. "We are glad to help" the homeless.

Kathleen Nolte, a social worker at the Reston shelter on Bowman Towne Drive, said there is no steadfast link to the number of days people can stay at the \$1.4 million, county-run facility. However, a contract is drawn up between the county and the residents outlining their earnings and exit plan. It is rare for families to stay longer than two months.

In many instances, people who meet at the shelter pool their resources and move in together.

Nolte said Thomas likely will be able to move into a Falls Church apartment, one of 18 housing units in Fairfax funded under a special federal grant for working parents. The waiting period for the county's regular federal subsidized housing is at least two years, she said.

Hoping to get the Falls Church apartment and to keep her Reston job, Thomas must find transportation.

On a recent morning, she called one person after another who had advertised used automobiles for sale in the newspaper. Then she turned the task over to a friend, who continued dialing.

"Would you take \$300 down?" the friend asked a seller.

"I have to have credit?"

Shaking her head, she hung up.

"I asked her to do this," Thomas said, "because I'm so tired of calling these people and getting turned down."

If Thomas had a car, she might join thousands of other commuters who work in the District or close to it, but live in suburbs where rents are less.

"I encourage people to move to a cheaper area if they can get a job there," Nolte said. The social worker is taking her own advice. She is leaving Fairfax County and her one-bedroom apartment in Bedford Village that now rents for \$467 and moving to Seattle and cheaper housing.

Said Morrisette: "If it's hard for the people who are the providers to live here, imagine how hard it is for their clients."

Mary Troutman also stays at the Reston shelter. She used to live in Winchester until the bank foreclosed on her sister's house; the two sisters did not meet several mortgage payments.

In Winchester, Troutman couldn't find a job. In Fairfax, she can't find a place to live.

After Thomas gave up telephoning for cars, she and Troutman left the shelter's lounge to get dressed for work.

Several other mothers in the lounge fed infants with milk bottles and children with sloppy Joes. Two little girls eating lunch said they were waiting for their mother to come home from work at K mart and for their father to get up after a long night of driving his taxi.

Then, as they do most days, Thomas walked to the bus stop with her children, and Troutman walked to Bradlees to stock shelves.



Regina Thomas, who works as a nurse's aide, and her children, Shantaye, 11 months, and Shaloe, 2, have been at a Reston shelter for two months.

BY CRAIG HERMOND—THE WASHINGTON POST

Mr. ROUSE. The Los Angeles Times made a study that showed that 44,000 families in the Los Angeles metropolitan area were living in automobiles or garages. The Washington Post carried a report a while back that showed 25 percent of the people in shelters were working.

This just can't go on and it will not be adequately treated by shelters. People must have the opportunity for decent housing, permanent housing, where kids can go to school the same place all year instead of moving from month to month. We're raising children who are nomads, who can't give an address when they go to school, who are ashamed by the way they live in this country.

Another thing that the concept paper seems to do is to prohibit the use of HOP funds at the local level for light and moderate rehab. This would be a tremendously wrong provision. We work at this all over the country—at rehabilitation, which is the biggest hope for providing private affordable housing for poor people. Gut rehab typically requires \$50,000 or more a unit. It's the most expensive form of rehab, whereas moderate rehab can take substandard houses and make them fit housing at \$20,000 to \$25,000 a unit. This would be an extravagant requirement and it would severely limit the amount of housing that could be provided.

LOCAL INITIATIVES

The task force report sharply focused on being responsive to local initiatives, to stimulate local initiatives. It sets aside 10 percent of the funds for nonprofit organizations because the work of nonprofits is a new opportunity, an important new force in the United States.

There was a lot of debate on what the role of public housing should be in the use of this 10 percent for nonprofits and it was finally resolved that the local public housing agencies should be eligible for up to 25 percent of the fund. There was concern that in many cities public housing would consume this 10 percent commitment to nonprofit housing.

We urge that the 25 percent limit be applied. It will give public housing a new opportunity for funds which it hasn't had in the past and will preserve funds also for private nonprofits.

The task force worked hard to find ways to draw new private funds into housing for low-income people. There are two proposals. One, is benevolent loan funds and the other is community development banks.

These have each operated in recent years successfully as new models of what can be done. They are mentioned in the concept papers as worthy of support, but no proposal is made as to the means of doing it. This means of support is provided for in the task force report.

Let me mention benevolent loan funds for a minute.

BENEVOLENT LOAN FUNDS

There was more than \$81 billion of charitable contributions in this country in 1986. \$71 billion was by individuals, \$10 billion by corporations and foundations. The total has increased every year for 55 years. It has increased by 276 percent in the last 10 years. At

the present trend, charitable contributions will exceed \$100 billion within 5 years.

What we searched for is a way to make this tremendous flow of funds and the motivation behind it useful to house low-income people. It can be done. It will work. It has worked. A little group in Washington sent out a letter asking people to lend money to Jubilee Housing at whatever rate they wanted between 0 and 6 percent. They have raised over \$2 million at 2.5 percent.

We formalized that in Baltimore. We got a Federal savings and loan to set up a dedicated account which would pay 3 percent and we set up a similar fund in the Enterprise Foundation. In less than 2 years we've raised almost \$8 million at rates of less than 3 percent to house the poor. The home builders of Maryland got behind this program; said they would raise \$1 million in a year and they did. The churches have raised over \$1 million. This was not a vigorously marketed program, no direct mail, no professional selling, but it has appealed to people because what it says is, "Here's your way of performing a charitable act, and still have your money and get a low rate of return." People will and do respond to it.

My view is and the task forces say that this could be a \$2 billion annual program to provide very low-rate funds to house the poor, by gosh we ought to seize upon it. But the real hole in it is the vulnerability of short-term deposits and long-term lending. The financial institutions need protection against it. There are some protections which can be made which we mention in the report. There is a proposal for \$500 million from the Treasury as a standby fund to protect the institutions against this drawdown of money.

Community development banks are another proposal. A remarkable man in Chicago, Ron Grzywinski, created the South Shore Bank or bought the bank and converted it into a community development bank. It's performed miracles in that deteriorating South Shore community.

We urge that money be provided to produce five additional community development banks in the hope of stimulating this as a new national institution.

Most important, the Federal Government must renew its commitment, provide new leadership, lay out new programs, identify needs, and above all else, provide money that can go to State and local governments pulling more money with it to support and stimulate these private initiatives and really get to our deep housing problems which are a disgrace to this Nation.

Thank you.

[The complete prepared statement of Mr. Rouse follows:]

JAMES W. ROUSE

TESTIMONY BEFORE THE SENATE HOUSING SUBCOMMITTEE

September 14, 1988

Good morning. My name is James Rouse. I am chairman and chief executive officer of the Enterprise Foundation, a nonprofit institution dedicated to providing decent housing for poor people. The Committee and its leaders, Senators Cranston and D'Amato, are good to have invited me to share my thoughts once again on national housing policy. I applaud the continuing bipartisan effort that you have all undertaken that is so important if we are to meet the nation's pressing housing needs.

It was my privilege over this past year to serve as chairman of the National Housing Task Force, which was organized in response to the efforts of this Committee and your colleagues in the House of Representatives to develop a new national housing policy. The task force was an impressive group of 26 men and women of diverse and wide-ranging experience in housing production, management and finance drawn from business, banking, community service, and state and local government.

This nonpartisan group worked tirelessly with me and my distinguished vice-chairman and friend David Maxwell for six months to produce a document that has been greeted with warm and encouraging response from many quarters, including members of this Committee.

Perhaps most remarkable about this final report is that it was unanimously adopted by a widely diverse group of people with very different views on some of the most critical housing issues facing us today. Particularly important was the clear conviction among the entire Task Force that housing for the very poor is a current disgrace and its correction a crucial necessity to the well-being of the nation.

You can be proud of the Task Force members and their staff for the energetic and committed way they solicited advice and counsel not only from each other but also from position papers from over 70 business and professional organizations, from a series of 20 special studies prepared by scholars and practitioners under the direction of Professors Langley Keyes and Denise DiPasquale of the Massachusetts Institute of Technology, and from specialists who appeared before the Task Force. This open, inclusive approach which made for a solid report also drew us together in common purpose.

The concept papers prepared by your staff, which we are here today to discuss, embrace many of the key recommendations

Senator SASSER. Thank you very much, Mr. Rouse. By virtue of your seniority and great distinction in your field, we wanted to hear every word you had to say this morning. I'm admonished by the chairman to try to encourage the other panel members to hold their remarks as closely as they can to the 5-minute rule.

We've been joined by the distinguished chairman of the full committee this morning and I'd like to recognize Senator Proxmire for any statement or comments that he might wish to make.

OPENING REMARKS OF SENATOR PROXMIRE

Senator PROXMIRE. Thank you, Mr. Chairman. As you know, I'm not a member of this subcommittee, but I am a member of the full committee and I am here for two reasons. One is because I want to welcome my friend, colleague, Henry Reuss, who as we all know was the chairman of the Banking Committee in the House and was an outstanding chairman and chairman of the Joint Economic Committee, and in both capacities I think he showed great ability and he's been a special friend of housing. I think we are very fortunate to have Henry Reuss and Carla Hills, who is a former HUD Secretary, as cochairmen of a committee that's going to give us a report on low-income housing preservation—tell us what the stock is, what the problems are, what we can do about it. And I want to say how proud I am, as a Wisconsin Senator, to welcome one of the most distinguished Members who served in the Congress from Wisconsin ever.

I also want to say a word about William Lacy. Mr. Lacy is going to appear later. Unfortunately, I have to leave. But Mr. Lacy heads the largest private housing insuring agency in the country. It's properly named MAGIC and MAGIC is exactly what they do. He and Max Carl have done a great job. Among their other most distinguished identifications is that they're from Wisconsin and we're very proud of them and they certainly have done a great deal for housing and so this is a banner day, having both Reuss and Lacy on the same program. I commend you, Mr. Chairman, on selecting such a fine panel.

Senator SASSER. Thank you very much, Mr. Chairman.

Senator Hecht, do you have a statement?

OPENING REMARKS OF SENATOR HECHT

Senator HECHT. Thank you, Mr. Chairman. Just a short note. I'm sorry I have three conflicting committee hearings at the same time, but I'm sorry I did not hear all of Mr. Rouse's testimony. I would publicly say I've been in the retail business for 40 years and this man is an absolute genius. He's taken land in downtown cities that were not even safe to use as a parking lot, transformed them into the most valuable property in America, and at the same time creating hundreds of thousands of new jobs.

So it's a pleasure to see you here and give some of your business expertise to government. We need it.

Senator SASSER. Thank you, Senator Hecht.

Mr. Maxwell.

STATEMENT OF DAVID MAXWELL, VICE CHAIRMAN, THE NATIONAL HOUSING TASK FORCE; CHAIRMAN AND CHIEF EXECUTIVE OFFICER, FEDERAL NATIONAL MORTGAGE ASSOCIATION

Mr. MAXWELL. Thank you very much, Senator Sasser. I am very pleased to be here. I'm Chairman and Chief Executive Officer of Fannie Mae, but my role here today is as Vice Chairman of the National Housing Task Force.

I think that the members of the subcommittee can tell from listening to Jim Rouse what an inspiration it was to all of us on that task force to serve under his leadership. And I guess it's a senatorial formulation, but I assure you I will yield some of my time to Mr. Rouse, who so ably has covered the major points of the task force and those particular ways in which it may differ from the concept papers this morning.

That task force would never have gotten off the ground and would never have been able to embark upon what turned out to be extremely hard work over many months of meetings and deliberations without the inspirational leadership of Senator Cranston and Senator D'Amato. They really got us started and they have stood behind us all the way, and I would like to make it clear how grateful we are to them for what they have done to make our work possible.

And I think that it is very gratifying to all of us that the subcommittee as a whole has supported in so many ways the work that we have done and is promoting in so many ways restoring housing to its rightful place in the national agenda.

Senator Sasser has introduced a bill that embodies many of the concepts of the task force report on the need for action to help first-time home buyers. That bill was the first one in the hopper after the task force report on this subject, and I think that it goes a long way to alleviate this problem. It's cosponsored by Senator Heinz, and since then 11 other cosponsors have joined that bill, including Senator Hecht. So we are very grateful and very pleased about that.

Senator Dodd and Senator D'Amato have introduced the Housing Grant Program Act. Here again, a bill which embodies many of the concepts in the task force report. And Senator Chafee has introduced a bill to create a special tax deductible savings account to permit families to save for a downpayment on a home.

All of this activity has importance in this effort to restore housing to its rightful place on the national agenda. All of it keeps the momentum going, as do the hearings today and the following 3 days, toward legislation which will embody a renewed Federal commitment to housing.

Now the concept papers which have been prepared by the subcommittee staff are extremely well done. Jim Rouse has pointed out some places where they differ from the task force report, but I think that in this case he would agree with me that we should also look at this glass as being half-full more than we should look at it as being half-empty. And the fact is that on many, many points the concept papers really track the recommendations of our task force.

As you said, Senator Sasser, in your statement, these problems are linked. It is necessary to deal with the homeownership problem

because that in turn affects the rental housing problem, and gets us to the problems that Jim Rouse dealt with so eloquently concerning the homeless.

Second, I think we all agree that it is absolutely essential that we encourage this new wave of creative activity that is taking place throughout the country on the local level, and I think that both the task force report and the concept papers do that.

In preservation, I'm very pleased to be here with Rod Heller and Henry Reuss and their report. I served on the commission chaired by Henry Reuss and Carla Hills and I think those recommendations are very worthy of consideration.

So without getting into the details, which I will certainly be glad to deal with in your questions, Senator Sasser, I want to say again how very pleased I am to be part of this effort, how I will do everything I can to help the subcommittee in its work, to work with the staff and to carry forward the great effort that you are making.

Thank you.

[The complete prepared statement of Mr. Maxwell follows:]

and ideas of the Task Force Report, and often expand and improve upon them.

Perhaps most noteworthy is that the concept papers explicitly recognize the important leadership and financial role the federal government must play in bringing state and local governments, business and particularly both for-profit and nonprofit developers into a national campaign to provide fit and affordable housing for all our people.

The papers taken together present a comprehensive approach to our housing problems. The solutions to the housing needs of first-time homebuyers, the working poor, and the homeless are inextricably linked. They cannot be dealt with effectively on a piecemeal basis.

A vigorous effort to provide decent permanent housing for the homeless and very poor will fall short if those higher on the economic ladder are bidding against them for a dwindling supply of affordable units -- something HUD housing statistics affirm. If more homeownership opportunities are available, then the pressure on existing rental housing will be reduced, making the job easier, albeit still difficult.

Thus the Homeownership Affordability concept paper proposes a series of relatively simple, low-cost initiatives by the federal government to expand opportunities for homeownership

for first-time home buyers. If adopted, the recommendations would make it easier to finance downpayments, make FHA insurance available more equitably throughout the country, and extend mortgage revenue bond authority. These are all sensible suggestions that are in synch with the Task Force Report.

The Task Force also recognized that there are a number of groups in society -- the elderly, the handicapped, the homeless, and families -- that have special housing needs. The supportive housing concept papers contain a number of thoughtful, practical suggestions that can improve and augment existing programs. The proposal to create a focal point within HUD for these activities -- an assistant Secretary for Supportive Housing -- is an important one that has great merit, because it will help focus attention where the need is greatest and attract bright, energetic people to a new division with a compelling mission.

At the heart of the Housing Task Force Report is a program we called "HOP" -- the Housing Opportunity Program. This proposal is the real centerpiece of the Task Force report. It was crafted in hours of earnest debate and thoughtful design by the Task Force. It recommended a dramatically new way of fostering state and local initiatives to produce decent, affordable housing.

The Task Force recommended a new approach to providing housing where the need is greatest, built around these precepts:

Additional federal funds are essential, but they should be made available under a program which --

- o attracts or compels one dollar of additional funds from state, local, and private sources for each \$2.00 of federal funds, and
- o provides the least regulation, imposes the minimum of criteria, and allows the greatest possible flexibility and choice to local and state governments. We must encourage the most rational response to local needs and conditions, reduce red tape, encourage local creativity and initiative.

The federal funds should provide special direct support to those who need it most -- the working poor and others with limited incomes. These people are the very backbone of our society and economy -- teachers, police officers, nurses, clerks and skilled workers.

A worker making \$10.00 an hour earns \$20,000 a year. A laborer at \$5.00 an hour makes \$10,000 a year, well below the poverty level. Twenty-five percent of the jobs in this country are said to pay wages that are below the poverty level.

There are over 13 million families in the U.S. with

wages under \$10,000 -- almost half of these families pay more than 50% of these income for housing. The number of people in poverty has increased from 25 million to 32 million over the past 10 years and the number of dwellings available at \$250 a month or less has decreased by 2 1/2 million. These are the people in the U.S. under the most pressure. These are the near homeless -- the next who may be on the street unless we act soon and with strength to provide better opportunities for decent, affordable housing.

Senator Cranston has offered us a set of good standards by which to measure new national housing legislation. We must:

- o provide federal housing support that is understandable and straightforward at the national level and is very flexible so that it can be adapted to differing local conditions;
- o build on what works and expand a system of responsive institutions;
- o and address the housing needs of all Americans.

The HOP strategies, as presented in the Housing Task Force Report, measure up to these standards. We urge your careful attention to them.

Perhaps the greatest virtue of the Task Force's HOP proposal is that it is understandable, straightforward, and flexible. The Task Force recommended new direct federal investment to increase the supply of affordable housing, and its proposal eliminates much of the red tape, regulations, and bureaucracy that have hampered past efforts. It puts federal money in the hands of state and local governments efficiently and in a way that lets them address pressing local housing problems in the most cost-effective manner.

At the same time, it departs significantly from existing programs in that it requires substantial state, local, and private sector funds to leverage federal investment.

In sum, the rules for receiving federal assistance would be simple and clear, flexible and easily adaptable to unique local needs -- and would require state and local financial participation for 1/3 of the total cost. In this regard, the concept papers are thoughtful and sincere, but they do not meet the Task Force precepts nor Senator Cranston's standards.

In a good-faith effort to dress up what is essentially a federal grant program in investment language "clothing", the state and local investment concept paper proposes a very complicated and unnecessary system of forgivable debt that raises a host of legal issues that could take years to settle.

Local governments would have to struggle once more to master yet another new, circuitous way of doing business with the federal government. Given the likely level of funding involved and the contribution requirement, many communities may not be able to participate -- and the poor are the ones who will suffer.

One of the critical features of the Task Force proposal is the flexibility it gives local and state governments to invent and implement programs specifically tailored to local needs. While the concept paper allows some flexibility in the way local governments address their unique needs, it specifically prohibits spending on "light and moderate" rehabilitation. This would be a very unfortunate restriction.

Moderate rehabilitation is by far the most cost-effective means of providing decent housing quickly. Why force a city to spend \$50,000 and more on what is called "gut rehab" when most housing in substandard condition can be made into decent housing at an average cost of \$20,000 and below. Neighborhood-based community development corporations are providing decent housing for the poor in cities across the country through moderate-scale rehabilitation. In some places, "gut rehab" is the answer, but the federal government should not tie the hands of local governments and nonprofits to force them into less effective, higher cost rehab.

The second challenge Senator Cranston has issued is to

have any new policy build upon what works and expand on a system of responsive institutions. Both the Housing Task Force HOP proposal and the concept papers measure up well in this regard. Both rely on state and local governments which have shown increasing initiative and inventiveness over the last decade in providing affordable housing. Both nurture the growing sprout of neighborhood-based nonprofit housing developers with an allocation of HOP funds.

It is important, however, that this set-aside be for private nonprofit neighborhood-based organizations, otherwise the funds could be exhausted quickly in supporting public housing authorities which are also technically nonprofit organizations. Both the concept papers and the Task Force proposals would allow up to 25% of HOP funds to flow through local governments to public housing authorities in any case, so they would have access to significant new money if they have a good track record.

Both HOP strategies also attempt to draw private funds and the private banking system into financing housing for low-income families through the use of benevolent loan funds and community development banks. But the concept papers fail to propose the means for achieving these very hopeful new sources for private funding.

The Task Force Report at pages 26 to 31 outlines the steps needed to bring these new sources of private funds into

housing for low- and moderate-income families. We urge your adoption of them.

The Task Force Report points out that, with modest federal support, as much as \$3 billion dollars per year of charitably motivated funds may be brought into financing housing for poor families at rates as low as 5 1/2% to 6%. Please give it your sincere attention.

While the concept paper makes passing reference to the proposed HOME corporation supporting benevolent loan funds and community development banks, without more specific direction and federal help, neither of these promising tools to leverage billions of private sector support can succeed.

Finally, Senator Cranston has challenged us to craft a national program that meets the housing needs of all Americans. Both the concept paper and Task Force proposals attempt to meet this challenge. The concept papers are particularly strong in suggesting new, innovative ways to meet the special needs of the elderly, handicapped, homeless, and families.

One of the real strengths of the Task Force Report is the attention it focuses on the need to help the working poor and those in poverty, "the near homeless." The concept papers leave this all-important issue open; the Task Force targeting recommendations are of enormous importance. Also missing from

the concept papers are proposals to deal with the special housing needs of rural America. The Housing Task Force recommendations in this area merit your attention.

Another key aspect of the Task Force report is its emphasis on preserving affordable privately owned, unsubsidized dwelling units that the vast majority of the poor call home. Seventy-five percent of the low-income families in the United states receive no assistance whatsoever from federal government housing programs. These people live in small buildings with four units or less or in single-family homes. Thus while it is important to address the immediate problem of expiring federal subsidies on low-income units, it is of, perhaps, even greater importance to make funds available -- mainly through moderate-scale rehabilitation -- to ensure that these millions of privately owned affordable units remain available to the poor as decent housing.

Thus the Task Force proposal would make HOP funds available for light and moderate rehab and would not allow the use of such money to address the problem of expiring federal subsidies. The Task Force felt strongly that the existing federally subsidized private units represented a federal investment and obligation that should not be put on the shoulders of state and local governments without a new and separate source of funding other than HOP. If HOP funds were to be diverted to deal with the expiring subsidies, little would be left to address

the unmet needs of millions of other poor people which are not fortunate enough to have a subsidized unit.

Thank you again for the opportunity to meet with you. We will be submitting more detailed comments on the concept papers to your staff. I would be pleased to answer any questions you may have.

But, as I did in my appearance before you in April, I close with one thought. It is that none of the important goals embraced in the Task Force Report or the concept papers can be carried out, nor is there any chance of reaching the goal of fit, and affordable housing for all Americans, without a renewed commitment and funding from the federal government. The federal government must now reaffirm its role as leader in finding solutions to the country's grave housing problems. The federal government must shape the national housing agenda -- draw attention to needs, set goals, establish standards for performance, and act as a catalyst. But most of all, it must provide adequate funds to do the job.

Senator SASSER. Well, thank you very much, Mr. Maxwell. I want to thank you for your testimony here this morning and to publicly express my appreciation to you and Jim Rouse for the wonderful job that you've done on the National Housing Task Force.

We will hear now from the distinguished former chairman of the House Banking Committee, Mr. Henry Reuss, who's presently the cochair of the National Low Income Housing Preservation Commission. Mr. Chairman Reuss.

STATEMENT OF HENRY S. REUSS, COCHAIR, NATIONAL LOW-INCOME HOUSING PRESERVATION COMMISSION

Mr. REUSS. Thank you, Mr. Chairman. I promise you that when the red light appears I will disappear.

Senator SASSER. Well, you may overrun that red light, Mr. Chairman, if you feel like it.

Mr. REUSS. A year ago, the National Low-Income Housing Preservation Commission was created with the blessing of this subcommittee to survey the Nation's inventory of low-income federally assisted housing, determine whether it was in jeopardy, and recommend whatever needed to be done to save it. With generous support from the Ford Foundation and the National Corporation for Housing Partnerships, we did just that.

We had a very bipartisan commission. In addition to Chair Carla Hills and myself, we had people on it like former Governor of Michigan, Governor Milliken, and former CEA Chairman, Marty Feldstein, on the Republican side; and Lt. Governor Stan Lundine and former Mayor Diane Feinstein on the Democratic side. It is a testimony I think to the seriousness of the problem that our report is unanimous.

Our recommendations are entirely consistent with the concept papers and with the Rouse-Maxwell report, as well as with the June 8 speech of Senator Cranston.

COMMISSION'S PROPOSITIONS

In a nutshell, we come out with these five propositions. No. 1, save those up to a million homes which in the next dozen years are going to disappear from the low and moderate income housing market by reason either of prepayment of mortgage or financial difficulties unless something is done.

Our study found that there immediately are about one half a million units based on two programs which are going to disappear unless something is done. We found that they are truly inhabited by low-income people. Seventy percent of the population of those 5,000 projects are people making less than 50 percent of the median income.

So we concluded unanimously that it was socially necessary and economically cost-effective to save these units and we think that the way to save them is by getting the fullest possible participation of State and local governments, public and private institutions, nonprofit institutions, the business community; and when a package is formulated to save a particular one of the 5,000 about-to-go bellyup projects, then let the Federal Government see what it can

Statement of
DAVID O. MAXWELL

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

FANNIE MAE

Before the

SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

of the

U.S. SENATE

SEPTEMBER 14, 1988

Mr. Chairman and Members of the Subcommittee:

My name is David O. Maxwell. I am Chairman and Chief Executive Officer of Fannie Mae. Fannie Mae is a privately-owned corporation with a federal charter. Our mission is to be the nation's housing partner in providing services that increase the availability and affordability of housing for low-, moderate- and middle-income Americans. We purchase loans from lenders in the secondary mortgage market, and we issue securities that are backed by residential mortgages.

From September, 1987 through April of this year, I also served as vice-chairman, of the National Housing Task Force, a privately initiated and funded project under the leadership of James Rouse. The Task Force was formed in conjunction with Senators Alan Cranston and Alphonse D'Amato, as part of congressional efforts to reexamine our country's housing policy. Mr. Rouse and I appeared before the Subcommittee in April to present the findings of the Task Force Report.

I appreciate the opportunity to appear here once again to discuss the proposed legislation incorporated in the Subcommittee Concept Papers, the "National Affordable Housing Act" (NAHA). I also extend my admiration for the continuing leadership of Senators Cranston and D'Amato in their effort to revive our national commitment to housing. They were instrumental in supporting the work of the National Housing Task Force and in generating renewed attention and commitment to housing issues.

When the Task Force issued its report to you in April, our overriding goal was to make housing a top priority again on the national agenda. We hoped that our recommendations would focus renewed attention on the severe housing problems we found, especially for the neediest families. The immediate response of Chairman Cranston and Senator D'Amato in scheduling early hearings and announcing plans for legislation was extremely gratifying.

The hearings today are equally important as a means of sustaining momentum for renewed federal leadership to meet our nation's housing needs. The Subcommittee Concept Papers offer a broad and thoughtful response to the major Task Force recommendations, and I commend the Subcommittee for the dedication and the tremendous effort reflected in the papers.

I also have been pleased that so many senators have initiated responses to the Task Force Report since April. Senator Sasser, with the co-sponsorship of Senators Chafee, Heinz, Graham and Sanford, introduced the Homeownership Assistance Act, which includes modifications to the FHA programs that are similar to the homeownership proposals of the Task Force. Senator Chafee also has introduced a bill to create a special tax-deductible savings account to permit families to save for a down payment on a home. That concept was one of the key proposals of the Task Force to

deal with the problem of home affordability. Finally, Senator Dodd and Senator D'Amato have introduced the Housing Grant Action Program Act. The bill is designed to support the Task Force recommendations for a renewed federal-state partnership to meet the housing needs of low- and moderate-income families. This bill includes specific provisions designed to help more people achieve homeownership by improving access to FHA's insurance programs.

I am particularly encouraged because these proposals reflect wide acceptance of some of the basic Task Force principles.

BASIC PRINCIPLES OF THE NATIONAL TASK FORCE REPORT

In evaluating the Concept Papers, I believe it is important to keep in mind three principles that undergird the report of the National Housing Task Force. Moreover, I believe that any new legislation must include these principles as the foundation for achieving the goal espoused by the Task Force of assuring fit, livable and affordable housing for all Americans by the year 2000.

First, the Task Force found that our most pressing housing problems -- the shortage of affordable housing for low-income renters, the plight of homeless people, and the travails of prospective first-time home buyers -- represent a continuum of cause and effect. Two common factors underpin that process: escalating housing costs and the failure of American incomes to keep pace with those increases. As a result, the frustration of renters who seek to become homeowners stymies the progression of move-up renters farther down the income scale. That progression inevitably moves down along the chain to public housing, where an estimated one million families fill the waiting list. The Task Force concluded that legislation must deal with the whole range of problems through a unified set of solutions.

Second, the Task Force found that the federal government is an indispensable partner in promoting affordable housing. The federal government must resume a full partnership with state and local governments and the private sector to address our most critical housing needs. This new commitment from the federal government can mobilize and multiply state, local, and private sector resources and dramatically improve housing conditions over the next decade.

Finally, the Task Force found that the most effective approach should use federal resources as a catalyst for the "new wave" of initiatives created by state and local governments in partnership with community groups, local and national nonprofit organizations, developers, builders, investors and financial institutions. The Task Force recommendations build on these existing state and local innovations for housing delivery, proposing federal leadership and funds to magnify and leverage their efforts and capabilities -- not to magnify federal programs.

The five Concept Papers tackled the difficult task of transforming these principles into a legislative framework, and they provide a useful foundation that embodies the basic values I described. Turning to the specifics of the proposal, my comments today will focus on each goal addressed by the Concept Papers: affordable rental housing, homeownership, and special needs housing support.

AFFORDABLE RENTAL HOUSING

The Concept Papers envision three different programs to expand and preserve the supply of affordable rental housing. These focus on preserving the existing stock of low income rental units, investing in state and local strategies to expand the supply of affordable housing, and providing a new form of rent subsidy for low and moderate-income families.

First, the NAHA would create within HUD a new Office of Affordable Housing Preservation. The bill would require states and localities to develop an approach to continue the affordability of federal assisted housing to low-income families. The new HUD Office would be responsible for identifying and protecting housing at risk of becoming unaffordable, providing technical expertise in a variety of ways, and implementing statutory requirements on housing preservation. The NAHA also would extend authorization for the Comprehensive Improvement Assistance Program to modernize the nation's stock of publicly-owned, low-income housing.

This framework provides an effective means of responding to two of the major Task Force recommendations: a new national policy should aim at preserving the existing stock of federally-assisted housing, and modernizing the public housing inventory. One particularly important element is the NAHA's commitment to focus attention on the preservation issue at the highest federal level, through the creation of a new HUD office. The report of the National Low Income Housing Preservation Commission also recommended the creation of such a special HUD preservation office.

Investing in State and Local Housing Strategies

The NAHA would create a new wholly owned government operation within HUD called the Government National HOME Corporation. The HOME Corporation would operate a new Housing Opportunity Partnerships (HOP) program that states and localities could use in a variety of ways to expand the supply of long-term affordable housing.

The HOME Corporation would make HOP funds available to states and localities by purchasing non-amortizing, non-debt HOP investment certificates issued by public agencies and designed by states and localities to carry out their housing strategies. The certificates would provide for repaying principal to the HOME Corporation upon termination of an assisted project's housing affordability restrictions. States and localities could retain

funds that are reused for eligible housing activities. The certificates would not be considered as a debt of the state or locality.

States and localities using the HOP Program would submit a housing strategy to HUD that outlines their proposed response to various national goals, but would receive wide discretion in using the funds. Jurisdictions could use grants, interest-rate subsidies, and other mechanisms for a wide array of activities such as new construction and substantial rehabilitation for rental or homeownership, and acquisition of rental housing.

Of the total HOP funds, 80% would be allocated by formula and the remaining 20% by national competition. The HOP Program also has a matching requirement, although the Concept Papers do not provide what percentage of funds would be matched.

The HOME Corporation would have authority to provide a new form of credit enhancement. It would guarantee securities backed by pools of mortgages on affordable rental housing issued either by state and local governments or by the HOME Corporation. The HOME Corporation would offer technical assistance to developers of affordable rental housing, and to states and localities.

The overall direction of this proposal offers strong support for the three guiding principles underpinning the Task Force recommendations. Like the Task Force proposal, this aspect of the bill is designed to permit a wide range of state and local strategies to address varying local needs, while providing federal leadership as the catalyst to multiply local efforts.

The idea of challenging states to share fiscal responsibility for HOP is a common thread in both the Task Force recommendations and the Concept Papers. But the structure envisioned by the Concept Papers does differ from the Task Force recommendations regarding the mechanics of local investment and the delivery system.

The Task Force HOP program emphasized local investment through a specific matching requirement (one-third of total funding), while maximizing the ease of delivering funds. The Task Force believed that minimal regulation was vital to allow the greatest possible leveraging of federal and local resources. And after reviewing a broad range of ideas, the Task Force focused on the the HOP delivery mechanism, tied to a state matching requirement, as the best way to ensure strong state investment incentives with maximum ease of delivery.

Clearly, given the complexity of issues encompassed in the Task Force recommendations, reasonable people will differ on the best way to approach many issues, including delivery. Both approaches contemplate a mechanism to increase funds for states and localities to use to meet their most pressing housing needs. And both approaches encourage states and localities to invest their

own resources, along with those of the federal government, in the design and implementation of housing strategies.

In weighing alternatives for delivery, the Subcommittee may want to consider offering some variant of the HOP investment certificate proposal as an option to states and localities, in addition to the more direct delivery mechanism recommended by the Task Force. In each case, identical matching and possible repayment requirements would apply, but the various jurisdictions could choose the type of delivery best suited to local resources and experience with housing development. Larger and more sophisticated jurisdictions might prefer the option of issuing non-callable obligations, which could be sold to HOME and then guaranteed and resold to the public. Smaller localities with the technical know-how and expertise for this kind of funding could also use this option, but others without such advantages could avoid the expense and complications of starting up such an effort by choosing the option of a federal grant of funds.

The HOME credit enhancement program also might discourage participation on an equal basis by states or local governments with fewer resources or experience with low-income initiatives. For example, page 30 of the Concept Papers, describing the issuance of the mortgage-backed securities that will receive HOME guarantees, states that issuers with a successful history of underwriting and financing rental housing will receive a guarantee "promptly with a minimum of federal red tape." This statement implies that the bureaucratic safeguards inherent in this scheme could disadvantage poorer, less experienced jurisdictions.

However, the HOME concept for credit enhancement of project loans is headed in the right direction. Providing an attractive investment vehicle for project financing certainly would help to assure a consistent supply of low-cost, fixed-rate financing for low-income rental housing. The HOME concept would address some fundamental elements of a successful investment vehicle, such as liquidity, pooling, and Federal credit guarantees. However, the Subcommittee first should explore whether FHA and Ginnie Mae could accomplish the HOME Corporation's mission, either under current authority or through charter improvements. This is another area where a careful review should precede the decision to invest limited resources in a new bureaucratic enterprise.

Two final issues in the Concept Papers merit discussion. First, the Concept Papers leave open the question of what funding would be committed to the HOP Program. The Task Force recommended initial funding in the first year of \$3 billion for HOP, with a matching contribution by the states raising the amount to \$4.5 billion. That is an extremely modest amount, which represents only about 2% of the \$13.6 billion outlays for HUD's programs in 1989; or roughly 1.5% of the total federal budget.

Second, the Concept Papers recommend that HOP funding should be allocated based on a formula that accounts for intensity of local

housing needs. To do that effectively, HUD will need the best and most comprehensive housing data available. As you know, OMB earlier this year announced, but then retreated from, plans to curtail sharply the housing data questions included in the 1990 census. As the Task Force recommended, I hope that you will reject any further efforts to compromise the quality of the census housing data. Those data are absolutely critical to insure that any new programs are well-tuned and cost-effective.

Low-Income Rental Assistance

In this arena, the Concept Papers' major proposal is to replace Section 8 existing certificates and housing vouchers with "rental credits" with 5-year contract terms. Under the rental credit proposal, states and localities would receive assistance under a formula devised by HUD that takes into account low-income targeting, the distribution of low-income households, the intensity of housing affordability problems, and various other factors. The rental credit program would provide flexibility to states and localities by allowing them to choose the option of providing rental assistance either as a project-based or tenant-based subsidy in connection with HOP. Recipients generally would pay no more than 30% of their adjusted income on rent. Transitional rental credits also would be available to families involved in job training or other welfare reform programs.

The Task Force did not address the issue of reforming existing federal programs for rental assistance payments. But the Task Force did acknowledge the Section 8 program as a very important ingredient in the mix of support necessary for assuring an adequate supply of decent shelter for low-income families. The concept of the rental credits offers a unique degree of flexibility that should substantially enhance the efficient use of resources to expand shelter options for needy families. By giving states discretion to choose assistance either on a project basis or a tenant basis, this proposal would avoid many of the pitfalls that accompany exclusive reliance on either form. For example, while vouchers work well when apartments are available, they are much less effective in tight markets. The option to choose is consistent with the basic premise of the Task Force recommendations that states and localities can best design strategies to meet widely varying local needs.

Another important innovation in the Concept Papers is a proposal to offer transitional rental credits to support welfare reform, by making rental credits available to families actively engaged in job training or other welfare reform programs if the family otherwise could not afford decent and safe housing. By linking welfare reform and the option of rental assistance, this proposal should greatly assist families seeking to resume living independently, by allowing them to move to housing more accessible to job and educational opportunities.

HOMEOWNERSHIP AFFORDABILITY

The Concept Papers include a number of reforms designed to lower the obstacles to homeownership posed by escalating down payment and carrying costs, as well as regional price inflation.

First, the bill would permit eligible first-time home buyers to use tax-deferred individual retirement accounts and 401(k) accounts for down payments. This reform, endorsed by the Task Force, should aid many families in marshalling the resources to overcome the barrier posed by down payment costs.

Second, the bill addresses the affordability gap for low-and moderate-income home buyers by improving the FHA program. The bill would replace the current national ceilings on FHA-insured mortgages with ceilings that reflect state and sub-state differences in housing costs. It also would revise down payment requirements to allow FHA insurance on a mortgage up to 97% of the first \$50,000, rather than the current \$25,000 level.

Each of these proposals match the Task Force recommendations very specifically, and would be effective in lowering the major obstacles to homeownership for prospective first-time home buyers and for low-and moderate-income families.

TAX POLICY ISSUES AFFECTING HOUSING

The Concept Papers also recommend extending through 1992 the municipal revenue bond program in aid of first-time home buyers and improving the low-income housing tax credit support for investment in state and local housing strategies.

These proposals were key elements in the Task Force recommendations for tax policy reform to support homeownership and low-income housing. The Subcommittee's attention to MRBs and the low-income tax credit are especially welcome, because these provisions provide vital support to sustain the "new wave" of state and local housing initiatives necessary to the success of a new national housing policy.

Fannie Mae's own experience in public and private sector partnerships to support affordable housing demonstrates how important these tax measures can be. Through our Office of Low-and Moderate-Income Housing, Fannie Mae has worked with more than 20 state and local housing finance agencies. We have invested more than \$1.6 billion in tax-exempt mortgage revenue bonds targeted to help approximately 31,000 low- and moderate-income families. By purchasing these issues in private placement transactions, Fannie Mae reduces the agencies' issuing costs, and allows them to pass along the savings to their home buyers.

The low-income housing tax credit also has played a vital role in our housing affordability efforts. We have found the tax credit a

superb vehicle for encouraging nonprofit and corporate support for low-income housing needs, and we are committed to encouraging other corporations to make use of it. Since June of 1987, we have committed to invest almost \$50 million in equity funds in housing that will help house more than 2,500 households. We expect our commitments to grow substantially in the months ahead. If the tax credit legislation is not extended, however, the growth in these investments will come to an abrupt halt in the near future.

Our investments reflect the range of housing to which the credit can be applied. In one effort, we will invest \$28 million in New York City to help finance the rehabilitation of up to 1,000 units of abandoned housing in targeted neighborhoods. There, Fannie Mae works with the Enterprise Foundation, which is assisting New York's community groups to identify appropriate buildings and to help them structure the transactions. The city of New York is making available city-owned properties at nominal cost, and both the city and the state are providing mortgage financing on concessionary terms. It is the active participation of all the partners that makes this program work.

In Washington, D.C., we have been working for the past year with the nonprofit organization known as So Others Might Eat (SOME), the D.C. Department of Housing and Community Development, the Enterprise Social Investment Corporation, the development firm of Mulligan & Griffin, Maryland National Bank, and Citicorp. Our combined efforts will produce Washington's first permanent housing for the homeless: a 100-unit single-room occupancy (SRO) project that will serve as a model for future efforts. We expect to make an equity investment in this SRO, and we are proud to be part of such a first-rate public/private partnership that can make a truly vital and innovative contribution to the homeless of our hometown.

Another example of the value of the tax credit is a transaction we recently announced in Montgomery County, Maryland, in which we are participating in a limited partnership with that county's Housing Opportunities Commission (HOC) and the investment arm of the Potosac Electric Power Company (PEPCO). Montgomery County has acquired 32 single-family homes through an inclusionary zoning program and is making them available as low-income rental units by using the tax credit.

These are only a few examples of the ways existing tax policy can magnify and encourage the participation of the private sector in meeting the housing needs of lower-income families. Fannie Mae is proud of its role in this search for innovative solutions. We believe that our efforts can encourage and assist lenders and other corporations to meet the needs of lower-income families and help revitalize older urban neighborhoods. I also will be forwarding, for the record, a copy of a report describing our low- and moderate-income housing initiatives in more detail.

Finally, I would like to revisit briefly the specific reforms to the tax credit that the Task Force recommended in order to make

this tool more successful. Since the Concept Papers mention reform but do not specify legislative revisions, I hope the Subcommittee will keep the Task Force Report suggestions in mind as it works on this issue. Extending this provision, and making it as effective as possible, are important because the credit represents a unique means to channel the profit motive into helping our neediest families. Supplementing the credit with flexible federal assistance can help substantially to expand the supply of low-income rental housing.

SUPPORTIVE HOUSING

The Concept Papers include a number of reforms designed to enhance housing programs serving the elderly, handicapped and homeless people. The NAHA would create a new HUD office of the Assistant Secretary for Supportive Housing to administer these programs. It would expand the supply of supportive housing for the elderly by retrofitting existing federally assisted housing and providing forgivable loans to finance production of elderly housing by nonprofit sponsors through the Section 202 program. The NAHA also includes a special program to finance production of handicapped housing under a forgivable loan program, and would authorize HUD to set aside a portion of available rental credits for use by handicapped persons.

The bill would offer additional aid for the homeless by extending and improving the Stewart B. McKinney Homeless Assistance Act. Reforms would allow states and localities to determine how to allocate federal resources, give them incentives to develop comprehensive solutions, allocate resources with more predictability through a formula that considers regional levels of homelessness, and reinforce outstanding homeless assistance programs.

The new bill would assist families with children by permitting renovation of facilities in or near public housing to provide day care or other services for parents working or preparing for employment. Also, public housing residents would be exempt from rent increases while participating in a self sufficiency program and for a transitional period after finding employment.

The Concept Papers provide a useful framework for the Task Force recommendations on supportive housing, which urged immediate attention for the homeless and encouraged state use of HOP funds to assist others with special needs, such as the elderly and the handicapped. The proposed creation of a new HUD Assistant Secretary, to oversee supportive housing programs for these groups, should greatly increase the effectiveness of federal attention in this area.

I want to commend the important innovations in the Concept Papers to assure the smooth meshing of public housing support and economic self sufficiency programs. Through such measures, the bill should provide a much stronger network of support for people

seeking to re-enter the mainstream of economic independence and productivity.

My only reservation concerning the homelessness program relates to dealing with welfare hotel reforms. The bill includes a provision to eliminate reliance on welfare hotels to assist the homeless. Beginning six months after the bill's enactment, a state or locality could use federal assistance to pay for temporary housing in a welfare hotel only if it is found that rent levels are appropriate, that the facilities meet certain federal standards, and that the state or locality has an approved plan to eliminate reliance on welfare hotels.

Although the NAHA would discourage reliance on welfare hotels by imposing these restrictions on local access to federal emergency assistance, I believe that even limited use is extremely suspect. The federal resources we have available for housing should not be expended on these hotels, which are tremendously wasteful and represent the most humiliating system of government support for homeless individuals and families. While states and localities should be free to choose this stopgap form of aid, I believe it is imperative to reserve federal funds for more cost-effective and humanitarian solutions.

SUMMARY

The hearings today, and the legislative initiatives offered by the Chairman and other members of this Subcommittee, are important to sustain momentum in the effort to reinstate housing as a national priority.

Two years ago, there was little agreement on whether housing should be a priority on the legislative agenda, what problems we needed to address, and what solutions would be most effective.

The Concept Papers of the Subcommittee, as well as the legislation proposed by other Subcommittee members, represent a remarkable degree of consensus on these fundamental issues. The efforts of this Subcommittee have been instrumental in forging that consensus and in laying the foundation for comprehensive legislation to support a new national housing policy.

I would be pleased to answer your questions.

do to complete the package if Federal participation is, as we think it generally will be, necessary.

We estimate the cost of saving these units at \$30,000 a unit. Now when you consider the cost of up to \$100,000 a unit for new or substantially rehabilitated construction, that is indeed cost-effective. We concluded that upward of 90 percent, and maybe much more than that of the total, ought to be saved by Federal participation in a package solution. At the margin there may be projects so expensive or so deteriorated as not to be worth saving. In cases like that, the general recommendations of the concept papers and the Rouse-Maxwell task force; namely, new or rehabilitated housing—other than the threatened units—seems to me to be the answer.

So we recommend a tailor-made, hands-on, new kind of Federal participation in which just enough and not one penny more of Federal subsidy will be forthcoming in order to save a particular project.

Our second recommendation is that HUD and Farmers Home Administration speedily complete the job we started on. There are a number of programs detailed in my written statement which we couldn't, for lack of time, cover. HUD and Farmers Home should use the next couple months, in our judgment—months that otherwise the locusts will eat—to complete that study.

Our third mandate is to act promptly because the problem is already upon us. This year, hundreds of projects are already in trouble crying for a solution, and in the next 4 years the bulk of the defaults over the next 12 years are going to occur.

So I am heartened by what Chairman Cranston and Senator D'Amato are about; namely, the provision of legislation as soon as possible.

Fourth, we ask for a follow-through on the concept of a special agency in HUD to ride herd on this program and there the Office of Affordable Housing Preservation in the concept papers seems to us just what the doctor ordered.

Fifth and last, we heartily endorse the chairman's statement made again this morning that in the new generation housing programs have to be coordinated with the tax-writing committees, the budget committee, and the appropriations committee.

I have to be the first to confess that this wasn't done in the past. It's good to hear that it will be in the wave of the future.

If that is done, I think we can complete our part of the program which would cost about a billion a year for the next decade, without substantially impairing the effort to get the budget under control. If one would look at all of the subsidies in the housing field as they are now paid, and ask whether a tiny portion of that couldn't be diverted to the task of saving existing housing, I think one might come up with a very cost-effective solution.

I conclude, Mr. Chairman, by congratulating you and the committee on what you're doing and wish you strength to your arm.

[The complete prepared statement of Mr. Reuss follows:]

Senator CRANSTON. Thank you very much, Henry. Jim, I thank you for carrying on during my brief absence.

Mr. Heller.

STATEMENT OF J. RODERICK HELLER III, PRESIDENT AND CEO, NATIONAL CORPORATION FOR HOUSING PARTNERSHIPS; COMMISSION MEMBER, NATIONAL LOW-INCOME HOUSING PRESERVATION COMMISSION

Mr. HELLER. Thank you, Mr. Chairman. I'd also like to thank you for the opportunity to appear here today.

The concept papers noted that the potential loss of the existing affordable housing stock will be the country's most compelling housing problem in the next decade. Obviously, in my capacity as a member of the National Low-Income Housing Preservation Commission and as the chief executive officer of the National Corporation of Housing Partnerships, I agree with that. I would like today, however to address issues that go beyond the preservation of the existing stock that Congressman Reuss so effectively addressed.

I might add in this connection that the National Corporation for Housing Partnerships was created by Congress to develop low and moderate income housing and we are in fact today the largest owner and operator of low and moderate income housing. Notwithstanding the problem since 1986, we expect in the next several years to develop approximately 2,000 units of housing.

Mr. Rouse emphasized the growing imbalance between the existing stock of rental housing and the needs of the lower income citizens of this country. I'm not going to elaborate on that unduly but would only like to note that the imbalance is growing in part because of the loss of stock—through the conversion to market rate, and through demolition—and that loss is not being offset by the subsidy programs that we previously had.

The loss was marked even during the period when the subsidy programs were at their height. Today, this country will be fortunate to develop in 1988 25,000 new units of low and moderate income housing.

Against that background, too, it's important to note that most of the Nation's low and moderate income citizens live in non-Federal housing. Of the 30 million rental units in this country, approximately 22 million are multifamily. The Federal Government directly supports approximately 4 million of these; 1.4 million public housing units, 800,000 through vouchers, and 2 million through the subsidy programs available to private owners.

Accordingly, there are 18 million units which are critical for housing low-income people, as well as more affluent citizens, and the Federal programs must, in our judgment, address the issues related to the continued utilization of that housing as well as the existing stock.

RECOMMENDATIONS

I would like just to note four points which I think are quite relevant with respect to the future evolution of the problem set forth in the staff papers.

First, the magnitude of the problem is great and growing. Bill Apgar of Harvard has estimated that the affordability gap in rental housing is at least 3.5 million units and it's increasing each year.

Because of the magnitude of that gap, it is simply essential, in my judgment, to involve the private sector. There's been appropriate comment by Jim Rouse and others on the growing role of the nonprofit community, and certainly that's an important future source of support for low-income housing. But the magnitude of the problem is so great that the private sector itself must be brought more fully into the picture.

That leads to the second fundamental point which Congressman Reuss dealt with briefly. That is the critical role of taxes. In our work on the Preservation Commission, I think we were able effectively to point out that most owners are more influenced by tax considerations than almost any other factor with respect to future disposition of their properties.

It is absolutely essential, I suggest, in framing a national housing bill to integrate more completely the work of this committee with that of the tax writers. Accordingly, I can only echo what Congressman Reuss has said and what Senator Cranston has previously referred to.

Third, preservation has historically been an issue which engenders a lot of fire and passion but very little reason. One of the outstanding characteristics of the work of the National Low-Income Housing Preservation Commission was its effort to develop a detailed computer model which would provide your Committee with information on which informed judgments could be made. In our view, the model developed at great cost and with some complexity, is suitable for future application broadly to the different states as well as in HUD itself. And we would urge that in the development of housing policy there be recognition of the need to deal with the serious complexities that arise in this area.

Last, preservation, particularly with respect to those 18 million units as well as the 4 million units that Congressman Reuss addressed, deserves fuller attention than is reflected in the staff concept papers. Accordingly, in our paper today we urge the development of a more focused preservation unit within HUD at the policy level as well as supporting our original Commission recommendation for an affordability unit to deal with case-by-case issues.

Thank you very much.

[The complete prepared statement of Mr. Heller follows:]

Testimony of Henry S. Reuss, Co-Chair, National Low Income Housing Preservation Commission, before the Senate Housing Subcommittee, 538 Dirksen SOB, 9:00 a.m., Wednesday, September 14, 1988.

I'm grateful for the opportunity to testify before this distinguished Committee.

A year ago the National Low Income Housing Preservation Commission was created, with the blessing of this Subcommittee, to survey the nation's inventory of low-income, federally assisted housing, determine whether it was threatened, and recommend whatever action might be needed to save it. With generous financial support from the National Corporation for Housing Partnerships and from the Ford Foundation, and with the help of a devoted and industrious staff, our report was completed in late April.

Ours is a highly bipartisan Commission. Its membership includes notable Republicans like former CEA Chairman Martin S. Feldstein and former Michigan Governor William G. Milliken and Democrats like former Mayor Dianne Feinstein and Lt. Governor Stan Lundine. Continuing the bipartisan motif are the co-chairs, former HUD Secretary Carla A. Hills and myself. That our findings and recommendations are unanimous attests to the seriousness of the threat, as we see it, to the nation's supply of low-income housing.

Henry S. Reuss
Testimony

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Our recommendations are consistent with those of the Senate Staff Concept Papers - the National Affordable Housing Act, of August 12, 1988; with those of the speech at the National Housing Conference of June 8, 1988 by Senator Cranston; and with those of the Rouse-Maxwell Task Force of April, 1988. In a nutshell we recommend:

1. Save Those Homes!

We surveyed 645,000 housing units, and found that 80 percent of those or 523,000 units, clustered into 5,482 projects, are threatened by reason of financial problems or mortgage prepayment. Their tenants are low-income, 70 percent of them below 50 percent of the median. We believe it to be socially necessary and economically cost-effective to save practically all these projects, throwing in the sponge only on those (clearly less than 10 percent of the total) where saving them is costlier than providing usable rental vouchers or alternative housing. We estimate our costs at under \$30,000 a unit--way less than the \$40,000-\$100,000 per unit costs of substantial rehabilitation or new construction. Where saving the threatened housing units appears to be less effective than providing alternative housing, I join in the general recommendations for new or substantially rehabilitated construction of the Staff Concept Papers and the Rouse-Maxwell Task Force.

Our proposed method is a tailor-made, hands-on, project-by-project approach involving the fullest cooperation between federal, state, and local governments, and between for-profit and non-profit organizations. We studied and rejected proposals for new, broad subsidy programs, and for new tax incentives and shelters. Instead, we recommend the provision of just enough federal subsidy, by loan or grant, for each project so that, added to a package of local, state, and private initiatives, the project can be kept in the low-income inventory.

2. Complete the Inventory of Vulnerable Projects!

Our study focused, for want of time and resources, only on the 645,000 units subject to the most familiar HUD subsidies, Sections 236 and 221(d)(3). Far more have been subsidized over the years under federal programs which we did not study, such as HUD Section 8 Substantial Rehabilitation and New Construction and Farmers Home Administration programs. Our Recommendation #10 asks for prompt analysis of the threat by the agencies concerned.

3. Act Promptly!

As you will note from our Report, the crisis is already upon us. The sword hangs over more units in each of the years 1988-1992 than in each of the remaining 10 years 1993-2002. Thus the process ought to be in place now. Acting on the foundation you laid in the Housing & Community Development Act of 1987, I would hope that new legislation can be enacted so that the new

administration which takes office next January -- whoever it may be -- will be able to hit the ground running.

4. Follow Through!

Our Recommendation #6 asks HUD to set up a special preservation office to implement the program, admittedly an unprecedented exercise in public administration. The Staff Concept Papers, p. 13, propose a new Office of Affordable Housing Preservation which seems to me exactly what the doctor ordered. Perhaps it could include among its personnel, on a temporary basis, men and women of great ability to handle the negotiations on the 500-odd projects which will reach the Emergency Room every year for the next decade. In addition, this Subcommittee might wish to set up a Task Force of Members to ride herd on the vast operations that are indicated.

5. Coordinate the Congressional Response!

Your Subcommittee has the principal role to play in saving these homes. But other Committees are concerned also--the Budget Committees with the budgetary impact of whatever program you adopt, and Finance and Ways and Means with possible tax implications. Senator Cranston said it well in his June 8, 1988 speech: "It is time for the Banking Committees and the tax committees to work together to achieve coherence between housing assistance and the tax system." Informal consultation would be constructive. For instance, how to find the \$1 billion annually

that a rescue program will require? Our Commission did not consider this, but a reasonable person might conclude that one way to find \$1 billion every year, without adding to the deficit, would be to look at existing housing subsidies that cost many times \$1 billion, and whose benefits accrue to citizens more affluent than the poor and near-poor who occupy the threatened projects.

This hearing room today contains enough talent to bring forth new housing legislation suited to the new era that lies ahead. Jim Rouse and his Enterprise Foundation have throughout the decade demonstrated that private non-profit initiative can make a large contribution to meet the nation's need for affordable housing. David Maxwell of FNMMA has taken the 1966 low income tax housing credit, of which many despaired, and made it work on a large scale. Rod Heller of National Housing Partnership has insisted, despite adversity that would have ^{counted} ~~lamented~~ a lesser man, that NHP remain true to its 1968 Congressional mandate to meld private and public concern for low income housing. And the two leaders of this subcommittee, Senator Cranston and Senator D'Amato, are demonstrating by their leadership that bipartisanship in housing is possible and capable of producing something worthy to be remembered.

TESTIMONY BY THE
NATIONAL LOW INCOME HOUSING PRESERVATION COMMISSION

ON THE
SENATE STAFF CONCEPT PAPERS:
NATIONAL AFFORDABLE HOUSING ACT
PRESENTED BY
J. RODERICK HELLER, III
MEMBER
AND
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
NATIONAL CORPORATION FOR HOUSING PARTNERSHIPS
TO THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
OF THE
UNITED STATES SENATE

SEPTEMBER 14, 1988

NATIONAL LOW INCOME HOUSING PRESERVATION COMMISSION
TESTIMONY BEFORE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS ON THE
STAFF CONCEPT PAPERS: NATIONAL AFFORDABLE HOUSING ACT

The staff concept papers for the National Affordable Housing Act stated: "The potential loss of the existing affordable housing stock will be the country's most compelling housing problem in the next decade." We agree. I am pleased to give you my views on this compelling national issue.

I am appearing before this Subcommittee in my capacity as convener and member of the National Low Income Housing Preservation Commission. However, I am also the Chairman and Chief Executive Officer of the National Corporation for Housing Partnerships. NCHP was chartered by Congress in 1968 to stimulate the production of low and moderate income housing, and now owns almost 60,000 such units in over 400 properties, more than other entity in the United States.

Approximately half of the subsidized portion of our portfolio (approximately 34,000 units) consists of older subsidized projects insured under Sections 236 and 221(d)(3) of the National Housing Act. Thus, NCHP has a vital interest in the future viability of this stock.

I. Background

There is a growing imbalance between the supply of affordable housing and the shelter needs of low and moderate income Americans, as illustrated by the following facts:

- o In 1986, 32 million Americans, or 1 in 7 people, lived below the poverty line.
- o Over 63% of poverty-level households live in rental housing.
- o Almost half of the poverty-level rental households pay 50% or more of their incomes for rent.
- o Demolition and conversion permanently removed approximately 4.5 million units of rental housing between 1973 and 1983. The approximately 1 million new subsidized units added between 1976 and 1982 obviously did not redress this loss.

- o Significant reductions in the amount of new, Federally subsidized low and moderate housing (only 25,000 new low income units will be constructed in 1988) have created an affordability gap estimated at 3.5 million units by William Apgar of Harvard University.

The role of the Federal government is important in two respects with regard to the growing crisis in rental housing. First, the Federal government supports 4 million multi-family rental units in the United States. The 4 million is comprised of:

- o 1,350,000 units of public housing built and owned by the Federal government;
- o 800,000 Section 8 vouchers or certificates in use by tenants in market rate housing; and
- o 2 million privately owned and Federally subsidized units.

What happens to those 4 million units is of paramount concern.

Second, the 4 million units are only a portion of the larger universe of 22 million multi-family rental units. The Federal government must play a greater leadership role, through example and otherwise, with respect to the continued availability of much of this inventory for low and moderate income families.

II. National Low Income Housing Preservation Commission

NCHP proposed in 1987 the establishment of the National Low Income Housing Preservation Commission to study and report to this Committee (as well as to the House Housing Subcommittee) on the health of the older subsidized stock. Our Report, Preventing the Disappearance of Low Income Housing was completed in April of this year. The Commission had outstanding bipartisan leadership with the Honorable Carla A. Hills and the Honorable Henry S. Reuss as its Co-Chairs. Funding was provided by NCHP (\$450,000) and the Ford Foundation (\$250,000).

The Commission's Report analyzed 645,000 units created under the 221(d)(3) and 236 mortgage programs. These units represented slightly less than one-third of the total 2 million privately owned but Federally subsidized units.

The distinguishing feature of the Commission's Report was its reliance on a detailed computer model to project what was likely to happen to these 645,000 units at the time rental subsidies expired. The Commission felt that preservation discussions heretofore had engendered fire and passion - but no light. An objective and realistic assessment of the problem was needed. The evaluation task was too large and complex to be well served by back of the envelope calculations.

The Commission's Model was based on a representative sample of 300 projects and was supported through continuous oversight by a Technical Advisory Group of significant distinction. Tax considerations - so important to an owner but too often ignored by housing officials - were given particular weight.

The conclusions of the study were many and well presented in the Report. (I might add that the general acclaim given the Report must be properly attributed to the extraordinary time and effort spent in drafting the Report by Carla Hills and Henry Reuss). I would like to summarize only the following.

Income About 70% of the units house tenants with incomes below 50% of the median, and 90% are occupied by tenants with incomes below 80% of the median.

Elderly 85% of the elderly living in subsidized housing have incomes below 50% of the median income. Virtually all (95%) have incomes below 80% of median.

Default As many as 280,000 units are likely to default upon subsidy expiration.

Market Rate Conversion An additional 243,000 units are estimated to be lost as low-income housing through prepayment of mortgages and conversion to market rate use.

A number of factors are conspiring to create this critical situation. The Senate Housing Subcommittee's staff concept papers accurately describe them as:

- o Rising rents, particularly in tight housing markets;
- o The expiration of Federal rent contracts;
- o The physical and financial needs of many projects;
- o The ability of some owners to convert their properties to market rate housing;
- o The disincentives for continued investment in low-income housing contained in the Tax Reform Act of 1986; and

Senator CRANSTON. Thank you very, very much, Mr. Heller.

We will now go to questions. I'll be brief with mine. I hope you can be fairly brief with your responses and I trust that's the way it can go with the other members of the committee.

First, to Jim Rouse, I support your call for encouragement of benevolent lending, as you know. I think that's one of the most innovative suggestions that's come from the task force, in which individuals and corporations would make funds available for lending at very favorable rates for low-income housing.

Do you feel the provisions in the concept papers will permit adequate support for benevolent lending and do you have any suggestions as to how that aspect might be strengthened?

Mr. ROUSE. I don't know that we have refined in the task force report the best possible way of giving strength to this opportunity.

The concept papers, as I read them, simply mentioned that this was a field that should be supported, but the means of doing it was not identified.

The task force report proposes a standby \$500 million fund to make up the gap when funds are withdrawn at below the level that the mortgages are yielding. If the funds drop below the mortgage outstanding, Federal funds would be available to deposit at the rate required to back up the mortgages.

The hope would be that if there was a drop in funds it would be recovered in time. This benevolent loan fund money is not money seeking the highest rate or it wouldn't be there in the first place. It is there out of a charitable motivation to support housing for the poor.

The turnover at the end of the first year on the CD's in the Baltimore fund has been very small. Almost all of the 1-year CD's were renewed. But the financial institution needs very specific Federal programs to provide the assurance of support if required.

Second, we have proposed that \$25 million be allocated to provide capital funds for five community development banks modeled after the South Shore Bank in Chicago. We would suggest that that deserves your very serious consideration.

Senator CRANSTON. Thank you very much. I do want to make sure that as we flesh that out we do it in consultation with you, also I want to state clearly and publicly my own personal conviction, shared with you, that whatever steps we take must take particular account of the needs of the poorest people in our society for housing, while also doing our best to have a balanced bill that covers other needs in order to get the broadest possible support for the legislation.

David, on page 5 of your testimony, you suggest that States and localities could be given the option of receiving HOP assistance through noncallable debt that could be purchased by the Home Corporation and resold to the public. Could you explain in a little more detail how that mechanism might work and what the advantages would be?

Mr. MAXWELL. The object of that suggestion, Senator Cranston, is to explore a way in which the Federal assistance might be leveraged to produce more dollars for housing help at the local level. It might work in a way in which the Federal Government would purchase the obligations of State and local governments. The Federal

Government then would guarantee the obligations and market them to the public via the Home corporation. For the same amount of money contemplated in the HOP direct grant approach, this investment concept appears capable of effectively doubling the dollars available to States and localities for housing.

We have offered the services of Fannie Mae experts on this investment concept to the subcommittee staff, and I believe that the staff and the Fannie Mae people have been considering how such a program might work.

Senator CRANSTON. Thank you very much.

I'd like now to go to Mr. Reuss and Mr. Heller. I have two questions for each of you.

First, it appears certain regions of the country will be affected disproportionately by the problems of prepayment and default. Do you have some sense of what regions are likely to be hit most severely, and are some regions immune, in your opinion, or will all regions be vulnerable in the course of time?

PROBLEMS OF PREPAYMENT AND DEFAULT

Mr. REUSS. All will be vulnerable. Some are more in jeopardy than others, particularly, for example, the west coast. I'll be very happy to file a geographical breakdown which will be more accurate than my oral recollection.

Senator CRANSTON. Fine. Rod?

Mr. HELLER. I would only supplement that by noting that the disparities regionally offer I think enormous opportunities to deal with the low and moderate income housing problem.

Right now in Texas, some of the most attractive properties available are properties that are fully subsidized under section 8. Good apartments can be acquired at \$10,000 to \$12,000 a unit, way below levels that traditionally have been financed. There should be possibilities of working with FSLIC and otherwise to acquire housing for long-term low and moderate income use in areas of current depression.

Senator CRANSTON. Thank you. I'll get back to my second question later. My time is up.

Senator D'AMATO. Mr. Chairman, I found Mr. Heller's last statement quite interesting and I'm wondering how we could help to advance that because, as you know, there's no way that you can build affordable units at that kind of cost. Do you have any ideas, Mr. Heller, and have you proposed any to HUD and would you further expand on that?

Mr. HELLER. Yes. This is a subject that I addressed in conversations with Danny Wall at FSLIC several months ago. He was quite interested, but as you perhaps know better than I, he has many things occupying his time today.

Senator D'AMATO. I doubt if he's going to take that up.

Mr. HELLER. In addition, there is some interest in this subject in Congress. Congressman Frank has expressed a great deal of interest and, as I understand it, has presented a bill.

We have not spoken to HUD. We have a number of ideas and we'd be glad to work with this committee and others to see about means of furthering that.

Senator D'AMATO. I just suggested to the chairman that's certainly an idea that we should look at—the preservation of housing stock that could be used for low and moderate income families and there are any number of combinations in which you could even involve homeownership with Dave Maxwell—get him going and Jim on that—and I'm wondering if you might not attempt to sit down and meet with the committee and the staff so we could pursue that.

COORDINATION OF ACTIVITIES BY COMMITTEES

Congressman Reuss, let me ask you, because you touched on something we're attempting to deal with. In your experience with the Congress, with the House and the Senate, do you really think there's any opportunity that the tax committees will really better coordinate their activities with those of this committee?

Mr. REUSS. Yes, I believe there is, but it will take a new approach to things. Senators and Congressmen, like the rest of the population, have personal ambitions and vanities and therefore anybody who can get a piece of the action tends to run with it.

Senator D'AMATO. If you put them on two tiers and we'll sit on the lower tier and they can sit on the higher tier?

Mr. REUSS. Seriously, I think that the Senate Finance Committee and Ways and Means and the two Budget Committees and the Appropriations Committee should be brought into a consortium on this. I think that's in the mind of Senator Cranston. Full credit should be given so that those things that are good can be shared broadly. That's an old art of politics.

That done, I think we can maybe get away from the "every man for himself" attitude that has sometimes produced, let us say, tax subsidies which were not cost-effective and, conversely, substantive programs which could have been better coordinated.

Senator D'AMATO. That is so desperately needed because I have a feeling that in spite of the tremendous work that so many people have done—and I think the work that remains to be done—but we begin to see it in pieces of legislation that have been proffered forth as a result I believe of the Housing Task Force and its initial work. The FHA legislation which is sponsored by my friend, Senator Sasser and Senator Heinz; the block grant legislation in which I joined with Senator Dodd, all of which provoke as a result of this task force will come to nought if we're not successful in bringing the forces of both committees together and, as you say, a sharing of whatever accolades, whatever positive achievements, certainly that had better be part of the mix lest there be no stew for anyone to partake of.

To Jim Rouse and David Maxwell, would you care to comment as it relates to the legislation which Senator Dodd and I have introduced to provide funding in the form of a block grant as it relates to attempting to deal with that problem of coordinating State and local homeownership opportunity concept? Do you feel that that is something that should be explored? We put it in to get comment on it. What is your comment on that?

Mr. MAXWELL. Yes, Senator D'Amato. I think that the task force would think that that should be very carefully explored because

the promotion of homeownership was one of the major objectives of the task force. We propose that the HOP money can be used to provide homeownership for low and moderate income people where appropriate, and I think that that is also the objective of the approach that you and Senator Dodd have taken.

So all of these approaches, I think, are very closely linked and it is a question of us all working together under the leadership of the subcommittee to come up with the best possible way to accomplish the result we all seek.

Senator D'AMATO. Mr. Chairman, I have many, many more questions that I could ask but I think time is such that I'm going to forego that at the present time and again thank the panel for having participated not only today but having been so outstanding in their work over a period of time in helping us come to this point.

Senator CRANSTON. Thank you very much, Al. Actually, your time was not up. That was a mistake by the clock, if you have any other questions, but we are pressed for time.

Thank you very much. Jim.

Senator SASSER. Thank you very much, Mr. Chairman.

Mr. Rouse, you and I both know there's a very worthy and enormously important experiment in providing affordable and decent housing going on right now in Chattanooga, TN. As a matter of fact, you were good enough to take a whole day of your time and come to Chattanooga and look some of that over with me and testified at a hearing I had and you got to Chattanooga in spite of the wonders of airline deregulation, and which that city has become one of those places you can hardly get to these days because of deregulation, but Chattanooga is a model for the housing opportunity plan that is the centerpiece of the National Housing Task Force report.

In Chattanooga, the goal is to have every housing unit in that city made fit and habitable in 10 years. Now the staff here on the committee is working on a concept of a home corporation to finance public-private partnerships like the Housing Opportunity Plan in Chattanooga.

Will the home corporation envisioned by the staff, in your judgment, be able to finish the job in Chattanooga and get these HOP projects going elsewhere?

Mr. ROUSE. Well, you're right in pointing to Chattanooga. It's the first city I think in American history that has ever taken on the task of making all housing occupied by low-income people fit and affordable in a set period of time—10 years. It's serious. They now have a staff of 23 people. They have raised \$2.5 million from the private sector to cover the first 3 years of operating expenses. But it is going to require a lot of help.

If the Senate Housing Subcommittee wanted a model to look at, it would be how can the Federal Government do the best possible job to reinforce that partnership with the Federal Government in such a way that Chattanooga can do that job.

Business, foundations, the city and the State are all poised and ready and I would say that the best possible result would be to adopt the HOP program, which will put cash in the hands of the government of Chattanooga to use to follow through on the pro-

gram; also support the benevolent loan fund effort which will produce money in Chattanooga, a charitably motivated city; and provide for the community development bank. Chattanooga banks are already trying to figure out how to do it, but it is very difficult. The initiatives of the community development bank, the benevolent loan fund and the HOP program would do more to push and support the Chattanooga effort than anything I think we could design.

Senator SASSER. Well, on the whole question of the benevolent loan funds as a means to provide lower cost housing loans. As I understand it, under such a plan, individuals could make lower than market deposits into a benevolent loan fund and that fund would, in turn, be loaned at lower than market rates to low-income persons or first-time home buyers.

We don't see much mention of that in the document that's been presented here today by our splendid staff, who have done a very good job. But it seems like a good idea to me. Perhaps mutual funds could invest in benevolent loan funds.

I may be naive, but I do believe that there are people in this country who would accept a lower rate of return on their funds if they knew their funds were going for a good cause and that good cause would be to help provide fit and affordable housing for people in this country.

The question to you, Mr. Rouse, as one who's spent a lifetime in this whole housing field, should we on this subcommittee pay a bit more attention to this idea of a benevolent loan fund than perhaps the staff has done in their original and excellent study?

Mr. ROUSE. I think there is an enormous sleeper out there of available funds for housing low-income people. There is a flow of money that will grow from \$70 to \$100 billion a year over the next 4 or 5 years. We have demonstrated I think in Baltimore the willingness of people, churches, home builders, to put money into such a benevolent loan fund. And mind you, the rate is not just "below market." The money is going in at 3 percent that can go out to borrowers at 5.5 or 6 percent if we can lick the liquidity problem. This is really taking the top off the cost of borrowed money. It will enable people to buy. It will enable nonprofits to finance rental housing. It's a source of enormous strength in this field and you ought to help make it happen.

Senator SASSER. Well, I want to help make it happen and I think the national outrage and shame over the question of homelessness in this country—I think that could be leveraged in many ways to encourage people to contribute or to invest in this whole benevolent loan fund.

Mr. ROUSE. Homelessness is maybe the biggest blessing that the poor have today because it's the first thing that has grabbed the conscience of American people and made them get into this issue and understand the desperate conditions of lower income people. Working class lower income people can't afford the housing that's available and many are on the street and many more are going to be on the street.

Mr. MAXWELL. Senator, could I just supplement Jim's answer in one sentence?

Senator SASSER. Yes.

Mr. MAXWELL. The benevolent loan fund was something that the task force very strongly supported. In order to make it work and really work on a large scale, you need some kind of backup to prevent what is known as disintermediation—where the bank or the thrift would have lent out intermediate or long-term money at a relatively low rate, and subsequently the low-cost funds are withdrawn by the investor for an alternate investment. There has to be some kind of backstop in order to ensure that that money continues to be available to support what you want to have, which is long-term funds for the housing.

Senator SASSER. Well, David, we appreciate your excellent testimony here today. As I said earlier, the fine work that you did in cochairing the National Housing Task Force, and most of all, I think we appreciate the enormously important role that the Federal National Mortgage Association plays in the whole housing sector. I continue to be impressed with Fannie Mae's efforts that go beyond its traditional secondary market role.

I understand that you're working now with corporations that are trying to provide lower cost housing on the part of the corporations to their employees.

What about Fannie Mae's activities in the whole low income arena and what's Fannie Mae doing to facilitate homeownership among low-income people, and does the secondary market work for low-income loans as well as other type loans?

FANNIE MAE'S INVOLVEMENT

Mr. MAXWELL. Senator, Fannie Mae has a very deep commitment to going beyond its basic mission to help create housing and to maintain housing for low and moderate income people. Under our low and moderate income housing division, which is headed by a very able gentleman sitting right behind me, Marty Levine, we have in the last year assisted about 41,000 households with a total investment of almost \$1 billion in achieving decent housing.

We believe that the secondary market can certainly work to assist this effort. We have a program for community lending which is active in many states. It has in Washington, DC, for example, provided or is in the process of providing homeownership for 300 families. This program, called HomeSight, works with local banks, with the city, with foundations, bringing all these forces to bear on the problem. I believe it's one of the most exciting things that Fannie Mae is engaged in and I can assure you that we're going to expand and widen our efforts in the future in this respect.

Senator SASSER. Well, thank you very much. I see I've got the red light here, so I'd better stop. Thank you.

Senator CRANSTON. Thank you very much, Jim.

Back to the second question I intended to pose to you, Henry and to you, Rod. Your Commission report carries a hefty price tag to preserve the subsidized housing stock, some \$11.3 billion in new funding, plus \$6.4 billion to continue subsidies previously granted by the Federal Government to these properties.

Do you have any recommendation as to how the Federal Government might fund such preservation efforts, especially given current fiscal constraints that are obvious; and given the need as expressed

in the Rouse-Maxwell task force report and staff concept papers to provide new housing assistance to low and moderate income Americans?

Mr. REUSS. Our report did not address the budgetary question. There was some discussion on the Commission whether we should not, but the majority view was that that wasn't our problem.

However, I could point out some things. We can do this job with respect to the jeopardized supply of existing federally subsidized housing for about \$1 billion a year. If you look at the range of housing subsidies now, if, for instance, one had the effrontery or wisdom, depending on how you look at it, to do what the West German and Canadian parliaments did—namely, lower the cap on the present mortgage interest subsidy to home owners from a \$1 million mortgage to \$300,000—which would infuriate people with mortgages over \$300,000 I grant you—you could find the billion dollars in that one act alone. Or by looking at the present tax-exempt bonds subsidies, what's left of it. There are ways of reordering priorities there and thus not have this program have any budgetary impact if that is thought desirable.

In fact, next year, I think it will be grasped by all that a completely balanced budget isn't going to happen very soon. It will also be grasped by all that some new programs are necessary. So it may not be necessary to apply this procrustean bed method that I'm working with here of finding the money in existing programs. But you could do it without in any way impinging on the poor or even the middle class.

Senator CRANSTON. Thank you very much. Rod, do you have any added comments?

Mr. HELLER. Two comments. One, just to reiterate the point Henry alluded to, we're talking in terms of this billions of dollars expenditures over a 15-year period.

Second, the preservation of these units, we believe, is the most cost-effective means available to the Federal Government to house the number of tenants that would be living in these units. This is certainly not to in any way suggest there should not be the new housing programs that Jim Rouse and David Maxwell have emphasized, but preservation is a very cost-effective technique.

Senator CRANSTON. Thank you very much.

I have what I think will be my last question and I'd like to put it to you, Jim, and then if others of you differ in any way with Jim's response or want to add to it, please do so.

A recurrent theme in the testimony we've received is that the Federal Government must maintain a leading role in housing policy. The question is, what is it about housing that makes housing policy a Federal responsibility and what is your response to those who say, "Well, it should be turned over to State and local governments"?

HOUSING IS A FEDERAL RESPONSIBILITY

Mr. ROUSE. Well, this isn't an adequate answer, but to begin, I think there's probably not a country in the world that doesn't recognize their central government as having responsibility in housing because housing is by its nature a cost that cannot be assumed by a

large part of the population and therefore there must be a plan. It becomes a national problem.

In addition, in the United States it becomes a national problem because the aggravated deterioration has become so massive that we are really alone today in the Western industrialized democratic nations with the housing conditions we have. There's no circumstance comparable to the South Bronx in Harlem or their equivalent in all the major cities in the United States in any of the Western European countries or in Japan. They just don't have these conditions. They are shocked at them. We should be. And that makes it a severe national problem, not just a dubious one.

There was another part to your question.

Senator CRANSTON. What's the best response to those who say, "Well, State and local governments can handle it"?

Mr. ROUSE. Well, they can contribute and the Federal program should call for it. Our task force report calls for a national campaign. We ought to do everything possible to induce and draw in—and it can be done today—private money, corporate money, foundation money, tax money. A lot of things have happened around the country—State programs for transfer taxes to housing the poor, condominium conversion taxes, housing trust funds—a lot of things have happened. But in sum total, they don't begin to meet the problem nor can they. The financial resources simply aren't there to do it.

But a Federal program, properly seen not as the answer but as a stimulant and the lead program, will draw in money. The task force report calls for \$1 of local, State, city money for every \$2 of Federal money. That's new and that's important and that's along that line, but the whole \$3 cannot be done by the State and local governments.

Senator CRANSTON. Any others? Yes, Henry.

Mr. REUSS. I would add just one thought to Jim's excellent presentation. Some may say that housing is not necessarily the financial responsibility of the Federal Government, but all I think have to agree that a sound economy—full employment without inflation—is the responsibility of the Federal Government. And what shall it profit the economic future of the United States if in Silicon Valley in your State the working poor can't find a place to live and if in the South Bronx, Senator D'Amato, vast social costs are borne by local, State and Federal taxpayers because of housing inadequacies?

Senator CRANSTON. If there are no further comments on that issue, Al, do you have any more questions for this panel?

Senator D'AMATO. Mr. Chairman, I again thank the panel.

Let me make an observation that one of the things, Mr. Chairman, that we should really push for, as we've attempted to build coalitions and not necessarily be controversial—attempt to do things that which is doable—is to really focus on the tremendous need for housing for those less fortunate with minimal incomes, many of whom just have Social Security, if that, as their sole source of revenue, to really boost the housing stock for senior citizens and that we should make that a tremendous battle because in so doing I think we can help a lot of those who are looking for housing—move seniors who are paying in some cases exorbitant

rents, much more than they can pay, into decent, affordable housing, and that the pressures that exist in local and State governments in opposition to the construction of housing is much less as it relates to the construction of senior citizen housing and I think we could galvanize the Congress because for us to be providing I think something like 10,000 or 11,000 units of 202 housing which communities really do fight over and seek, it's just a terrible, terrible disgrace, and I would hope maybe we could, in the fullness of time, develop a more active aspect of our housing program for seniors because it's not just for seniors but if we can open that door there's a lot that follows behind. Their leaving someplace which opens up other housing opportunities for people behind them and I just think we ought to get into the business of the doable.

So I leave that to Jim and to Dave and our former chairman and Mr. Heller if they wouldn't focus in on that. Maybe, Mr. Heller, as it relates to those units you talked about it might be a very fine opportunity to develop some of those into senior complexes even for moderate income seniors where there are no opportunities today for them.

Thank you, Mr. Chairman.

Senator CRANSTON. Thank you, and I thank the members of the panel very much for your tremendous openness not only today but in many days preceding today, and what we're counting on in the future from you.

We will now proceed to our second panel. I want to give a particular welcome to two Californians, Dale Stuard, president of the National Association of Home Builders; and Leonard Shane, chairman of Mercury Savings and Loan, representing the U.S. League of Savings Institutions.

I want to note that Professor Langley C. Keyes, professor of urban studies and planning at M.I.T., who was on the first panel, was delayed for reasons beyond control, and has now joined with this panel.

I welcome each of you. Thank you very much for your help in this and for your presence today. I ask each of you to please try to make your statement in not more than 5 minutes. There will be a green light and then a yellow light warning and a red light when you're supposed to stop. Your full statements will appear in the record as if read.

We will start with Willard Gourley, president elect, Mortgage Bankers Association.

STATEMENT OF WILLARD GOURLEY, JR., CMB, VICE CHAIRMAN, BARCLAYS AMERICAN/MORTGAGE CORP.; ON BEHALF OF THE MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. GOURLEY. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, my name is Willard Gourley and I am president elect of MBA. I'm delighted to be here this morning to comment on the staff working concept papers, which represent a serious effort to develop a national housing policy agenda. As we look to the future, we must build upon the basic role of the Federal Government and expand the role of State and local governments and private enterprise in fostering

homeownership, preserving affordability and availability of rental housing, and in focusing on specialized housing needs.

MBA believes that the FHA homeownership programs have served their mission well, ensuring a steady supply of mortgage credit at the most affordable interest rate possible. Likewise, the secondary market activities of Ginnie Mae, Fannie Mae, and Freddie Mac have enhanced affordability. These are superb examples of government initiative and private enterprise working together to achieve the valid public policy objective of promoting homeownership.

FHA loans are available with a standardized mortgage insurance premium in all regions, including localities that are experiencing economic downturns. Recently private mortgage insurers have largely abandoned markets suffering economic distress. The MIs' understandable overriding concern with profitability has caused them to tighten underwriting standards and reduce their activity in areas where employment and business activity are suffering.

The FHA though, has a different motivation. Throughout its 54-year history, FHA has always been there to expand homeownership opportunities.

In early August, phase 1 of a major study of FHA's Mutual Mortgage Insurance Fund was completed by Peat Marwick Main. The study concluded that the fund is in a "strong financial position relative to future performance, under probable future economic conditions." This should put to rest charges that have been made by FHA's detractors that the fund is in trouble. The FHA's success has been predicated on its ability to blend its fundamental social purpose of expanding homeownership opportunities with the goal of fiscal responsibility.

MBA strongly supports more equitable treatment of high cost areas, as well as flexibility in indexing for the purposes of setting the FHA maximum mortgage amount. We will continue to work with Congress to arrive at a mechanism to serve the goal of ensuring adequate access to FHA in a variety of markets.

Adjustable rate mortgages have proven to be strong tools in reducing initial mortgage interest rates. MBA supports amending the FHA ARM program to remove volume limits and to allow interest rate adjustments of 2 percent per year with a maximum lifetime cap of 6 percent. The 2/6 ARM, which is offered by both Fannie and Freddie, has become the industry standard.

The amount of downpayment is a key variable in the home ownership affordability equation. MBA supports the recommendation that FHA downpayment requirements be amended to 3 percent of the first \$50,000 and 5 percent of the balance. This is a very positive step.

S. 2379, cosponsored by Senators Sasser and Heinz, contains a number of proposals that were included in the report of the National Housing Task Force and which have been included in the concept papers as well. This legislation contains other noteworthy programs proposals that were not adopted in the concept papers, but that will enhance first-time home buyer affordability—most notably the accumulating downpayment mortgage.

- o The lack of economic incentive for construction of affordable rental housing by the private sector.

III. Response to Concept Paper Recommendations

Many of the Commission's recommendations have been accepted in the staff concept papers. We, in general, support the position taken in the staff concept papers but do not feel that they go far enough. In summary,

1. The mechanisms which you are establishing, such as the Office of Affordable Housing within HUD, do provide for focused leadership in housing preservation.
2. However, in other ways the concepts stop short of addressing the deficiencies in the 1987 Housing and Community Development Act which, in lieu of a positive program, established a de facto moratorium on owners' rights to prepay.

I will address first the procedural issues, and then the more substantive concerns.

A. Procedural Issues

We fully support the establishment of an Office of Affordable Housing Preservation within HUD (which will report to the Assistant Secretary for Housing/FHA Commissioner) and the powers and responsibilities delineated for this Office. We also endorse acceptance of the case-by-case approach as the most cost effective way to preserve the existing stock. The approach necessarily involves Federal, state and local involvement to the maximum extent feasible.

Resolving preservation issues on a case by case basis will not be easy - even if essential. Sorting out various interests before the crisis hits will be an enormous undertaking, as will determining which level of government should contribute what type of incentive to the solution. To this end, we agree with the staff recommendations that accurate data bases on Federally-assisted, privately-owned affordable housing need to be developed. Without such computer assisted analytical tools, the challenge of project-by-project workouts is ripe for abuse. It will be exceedingly difficult to guarantee that the equity of a workout done in Austin, Texas will be even remotely defensible with one done in Sacramento, California or New York City.

We would like however to make two further recommendations to facilitate this process.

1. Create a Deputy Assistant Secretary for Affordable Housing Preservation Policy under the Assistant Secretary for Policy Development and Research to assist the Affordable Housing Preservation Office in carrying out its mission. Specifically, this Deputy Assistant Secretary would be responsible for helping to identify, through broad policy studies, low cost housing that may become unaffordable and to develop strategies to mobilize resources to retain it. This office would also be best equipped to conduct the on-going reviews of market developments and public policies to preserve affordable housing. The PD&R office within HUD also must be directed and funded in such a way as to take primary responsibility for developing accurate data bases to assess the affordable rental housing stock. I believe that the Director of Affordable Housing who reports to the FHA Commissioner will be consumed by negotiations to provide assistance to save the stock on a case by case basis and will have very little time or expertise available to do the broader policy setting, trend watching and strategic assessments that will be essential to the future of affordable rental housing.

2. Allow for-profit, as well as non-profit, entities the opportunity to contract with HUD on workouts. At present, the concept papers state that only non-profits would serve as intermediaries with HUD on project specific plans. The volume of transactions is simply too large, and the number of qualified non-profits too small, to preclude other capable firms from assisting.

B. Substantive Issues

The concept papers thus provide a framework for dealing with the preservation crisis. They do not go far enough, however, in presenting substantive solutions. Funds must be allocated, and specific recommendations developed.

In particular, I do not agree with the implicit acceptance in the staff concept papers of the continuation of the present moratorium on prepayment. The moratorium raises fundamental legal questions which will inevitably be addressed. But it also raises more fundamental questions of fairness and policy. The magnitude of the low income housing crisis demands that the private sector (both profit and non-profit) participate with governments. This approach of public/private partnerships has worked in the past, and should be as successful today. It cannot succeed, however, if existing property owners are seen as the problem, rather than as part of the solution. Punitive policies, such as a moratorium, are a poor substitute for the lack of a positive national housing affordability preservation program.

We recognize that the provisions in the 1987 Act were meant as stopgap, temporary measures to prevent owners from prepaying their mortgages before a positive program could be developed to retain the privately owned stock. However, the proposals before us stop short of laying out specific programs and funds to induce owners to continue their commitment. The danger is that the programs and funds are delayed and the moratorium continues. To forestall this from happening, I would like to propose a way to help this Subcommittee get to the all important next step.

IV. The Affordable Housing Preservation Center

The Commission's Report emphasized the seriousness and potential costliness of dealing with the preservation of the existing stock. It also made clear that a much more specific demonstration of the application of this analysis at the state level is now needed. In recognition of the need for continuing effort, the Commission has decided to reconstitute itself as a non-profit organization to be known as the Affordable Housing Preservation Center. I am pleased to report that I and a number of my colleagues on the Commission have agreed to serve on its Board of Directors. We will be adding representatives of state and local government to the Board, as we anticipate focusing primarily on ways to extend the use of the Preservation Analysis Model to the state and local level and into real world situations. Our activities are, of course, subject to the need for funding of this work.

We would like to propose a partnership with this Committee and the House Housing Subcommittee to help you to fashion a more precise definition of the roles of various Federal, state and local housing entities in preservation. We propose to do this through a pioneering use of applications of the Preservation Analysis Model. Such a use would enable this Committee to make far more accurate comparisons of cross-state and cross-project subsidies in accomplishing project workouts than would ever be possible without a common analytical approach. We propose to complete a significant enough portion of this work in time for your appropriations deliberations next year, but before it is possible to have the new Office of Affordable Housing up and running within HUD.

We are confident that expansion of the modelling approach taken by the Commission is the most sensible and cost effective way for dealing with the preservation of the existing stock. We are pleased to report that the House Subcommittee staff has submitted language in the technical corrections to the McKinney Act to direct HUD to tap the FHA mortgage insurance fund for the appropriations to assist us. We would like this Committee's endorsement as well.

Thank you for the opportunity to present these views today.

MBA supports the eligibility of savings invested in IRA's and 401(k)'s tax-exempt or tax-deferred savings accounts for investment in downpayments on homes for first-time home buyers.

Federal, State and local governments must share the responsibility for providing assistance to suitable multifamily rental housing. The Federal Government and many State and local governments have a number of viable, active programs that are currently working well. Many nonprofits have developed the expertise and the funding sources to provide assistance. Private, profit-motivated companies certainly have the experience and capacity to produce, finance, and manage rental housing. Thus, MBA concludes that multifamily rental housing requires diverse approaches by a variety of participants.

In summary, the partnership between private enterprise and the Federal Government has created a home finance system that has made home ownership possible for more than 60 percent of Americans. This devotion of resources to its citizens must not be scaled back or diminished.

The most difficult elements of our national housing policy agenda are the proposals to address the complex and expensive housing needs of low and moderate income households and the specialized needs of the elderly and handicapped.

The mortgage lending community wants to commit its energy, skill, and resourcefulness to providing adequate housing for all citizens. MBA appreciates the opportunity to testify and looks forward to the opportunity to participate in the continuing dialog and effort to forge workable housing opportunities for all American citizens.

[The complete prepared statement of Mr. Gourley follows:]



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Mortgage Bankers Association of America

STATEMENT

WILLARD GOURLEY, JR., CMB
VICE CHAIRMAN
BARCLAYSAMERICAN/MORTGAGE CORPORATION
CHARLOTTE, NORTH CAROLINA

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

Hearings on

National Affordable Housing Act

September 14, 1988

Mr. Chairman and Members of the Subcommittee, my name is Willard Gourley, Jr. I am Vice Chairman of BarclaysAmerican/Mortgage Corporation located in Charlotte, North Carolina and I am also serving as President-Elect of the Mortgage Bankers Association of America (MBA).^{*} Accompanying me are Burton C. Wood, MBA's Senior Staff Vice President and Legislative Counsel, and Sharon M. Canavan, MBA's Deputy Legislative Counsel. MBA appreciates the opportunity to appear before you today to testify on the concept papers that will serve as the basis for developing a National Affordable Housing Act.

The staff working concepts represent a serious effort to provide a framework for developing a new agenda for national housing policy. The Federal government has a responsibility to fulfill the expectations for decent housing for all our people with their varying needs. This effort represents a commendable step as we look into the future to determine what is the appropriate role for the Federal

^{*}The Mortgage Bankers Association of American is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA include:

- | | |
|---------------------------------|---------------------------------|
| - Mortgage Banking Companies | - Mortgage Brokers |
| - Commercial Banks | - Title Companies |
| - Mutual Savings Banks | - State Housing Agencies |
| - Savings and Loan Associations | - Investment Bankers |
| - Mortgage Insurance Companies | - Real Estate Investment Trusts |
| - Life Insurance Companies | |

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government to play and how to expand and build upon the role of state and local governments and private enterprise in fostering homeownership, preserving affordability and availability of rental housing opportunities, and in focusing on specialized housing needs.

MBA would like to stress, however, that in creating these new approaches the Federal housing programs now in place are a sound foundation on which to build our renewed commitment to housing. Where these programs--both single family and multifamily--are presently working, they should remain essentially in force with technical improvements where necessary.

Also, MBA would like to stress that the most effective plan for housing should include a careful mix of Federal, state, local, and private initiatives. Private entities, in a working partnership with all levels of government, have played a key role in providing housing. MBA believes private sector participation is essential to providing housing opportunities on a national scale.

The concept papers have targeted a clear strategy and framework for dealing with three identifiable objectives that must be met in order to provide a viable, defensible, housing delivery system. The elements of this equation--homeownership, rental housing preservation and delivery, and special needs/supportive housing--must all be addressed with equal vigor in order to achieve the goal of providing adequate and affordable housing for all Americans.

HOMEOWNERSHIP

MBA believes that the Federal homeownership programs have served their mission well. The efficiency of these programs has ensured a steady supply of mortgage credit at the most affordable interest rates possible through the low downpayment mortgage insurance programs of the Federal Housing Administration (FHA) and the no downpayment Veterans Administration (VA) home loan guaranty program. Affordability is also enhanced by the access to the secondary mortgage market provided by the mortgage-backed security (MBS) program operated by the Government National Mortgage Association (GNMA).

Furthermore, the secondary market activities of the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA) enhance liquidity and efficiency and, thus, promote affordability for conventional mortgages.

These federally related mortgage programs and operations all serve their objectives well. They promote efficiency and standardization. They enhance affordability and availability of mortgage credit. And they are superb examples of government initiative and private enterprise working together to achieve the valid public policy objective of promoting homeownership.

MBA believes that the efficient operations of these programs and entities should not be curtailed--either directly through program restrictions or indirectly through the imposition of excessive fees.

FHA is an essential financing alternative for moderate- and middle-income homebuyers of all types, including, but not limited to, first-time homebuyers. FHA provides a steady source of low-downpayment, long-term financing. FHA loans are available with a standardized mortgage insurance premium in all regions, including localities that are experiencing economic downturns.

The FHA program has been used extensively in tough markets during tough times. FHA's market share has increased dramatically in the riskier regions of Texas, Colorado, Louisiana, Alaska and Oklahoma. In Texas, for example, FHA's market share of originations rose from 7 percent in 1984 to 35 percent in 1987. Meanwhile, the mortgage insurers' (MIs) share dropped from 44 percent to 10 percent. In Colorado, the FHA's share went from 21 to 45 percent in the same four-year stretch, while the MIs dipped from 27 to 6 percent.

In 1987, nearly 36 percent of total home mortgage originations in the five states above were insured by FHA, compared with only 9 percent by the MIs. In 1984, the shares were 10 and 44 percent, respectively. These figures reflect the fact that private mortgage insurers have largely abandoned markets suffering economic distress. The MI's understandable overriding concern with profitability has caused them to tighten underwriting standards and reduce their activity in areas where employment and business activity are suffering.

The FHA, though, has a different motivation. Throughout its 50-year history, the FHA has always been there to expand homeownership opportunities to deserving homebuyers. Even though some areas have experienced economic hardship during the last few years, the FHA has filled the void left by the retreat of others in

the industry and has ensured that the dream of homeownership remains reachable in these areas.

MBA supports continuation of FHA as a low-downpayment program. Even with the liberal downpayment requirements that apply to FHA loans, default costs under the program are completely covered by the existing up-front mortgage insurance premiums. In early August, phase one of a major study of FHA's Mutual Mortgage Insurance Fund (MMIF) was completed by Peat Marwick Main and Company. The study concluded that the fund is in a "strong financial position relative to future performance under probable future economic conditions."

The study's conclusions should put to rest charges made by FHA's detractors that the fund is in trouble and cannot withstand continued high levels of claim payments. In fact, according to the study, the MMIF can withstand all but a multi-year economic disaster--a so-called Great Depression.

As part of its study, Peat Marwick was also asked to determine what rating FHA would receive if it was rated by one of the recognized rating organizations. Peat Marwick concluded that a "AA" rating for FHA would be probable. This compares favorably with the current ratings of MGIC, CMAC, RMIC, and Home Guaranty, which are large, well-positioned mortgage insurance companies.

Peat Marwick reported that the "AAA" rating has only been achieved by, GEMICO, PMI, and United Guaranty on the strength of parental support and capital maintenance agreements. If U.S. Treasury support is factored in, FHA would then also be rated "AAA."

The FHA's success has been predicated on its ability to blend its fundamental social purpose of expanding homeownership opportunities with the fiscal responsibility that has enabled FHA to accumulate over \$4 billion in reserves. Peat Marwick's study confirms that the FHA is financially prepared to continue to fulfill its fiscal and social goals.

FHA Maximum Mortgage Amount

MBA supported the provision, which was included in P.L. 100-242, increasing the FHA maximum mortgage amount. However, this step did not fully address the high-cost factor in a number of markets, because the provision included a mortgage cap of \$101,250 even where 95 percent of an area's median sales price exceeds that amount. The maximum mortgage ceiling is intended to target FHA activity to moderate-income homebuyers. However, it is important that it have generally equitable applicability for the entire country. While the indexing concept introduced in 1979 is supportable and helpful, the maximum cap of \$101,250 has served to reduce the availability of FHA insurance in high-cost areas, of which there is a growing number.

The scarcity of FHA mortgage activity in many of the metropolitan areas around Boston, New York, San Francisco, Los Angeles, Washington, D.C., and other high-cost cities documents this problem. The average nationwide home sales price in 1987 was \$106,300 (existing homes) and \$127,200 (new homes). Thus, the FHA program (limited to \$101,250) is already well below the national average and is targeted to the most modestly priced American homes.

MBA strongly supports more equitable treatment of high cost areas, as well as flexibility in indexing for the purposes of setting the FHA maximum mortgage amount. The concept papers propose that the base, currently set at \$67,500, should be adjusted annually for inflation. The base, which was last increased in 1979, should be reevaluated, as it has now fallen well below median nationwide sales prices. MBA supports indexing of that base as an appropriate mechanism for adjusting to housing price trends.

For dealing with high-cost areas, the concept paper proposes establishing area ceilings at 95 percent of median sales price by state, multi-state metropolitan areas, or county/metropolitan statistical area as designated by the HUD Secretary. MBA has some concern that the third option--HUD discretionary designation--is inappropriate without further delineation of Congressional intent as to HUD's responsibility for ensuring fair access by borrowers to FHA in these areas. MBA has adopted policy and continues to support establishing the maximum at 95 percent of median sales price. However, we recognize that in certain very high cost localized markets, this equation would result in a maximum above FNMA/FHLMC limits. We will continue to work with Congress to arrive at a mechanism to serve the goal of ensuring adequate access to FHA under a variety of market circumstances.

Adjustable Rate Mortgages

Adjustable rate mortgages (ARMs) have proven to be strong tools in reducing initial mortgage interest rates. Thus, an ARM can be a significant vehicle for overcoming affordability hurdles, especially in periods of high interest rates. If

appropriately underwritten, there is a reduced risk of default, particularly when paired with borrower protections that cap the level of annual and lifetime increases in the applicable mortgage interest rate. ARMs have proven to be so popular that in the recent interest rate environment they have represented a lion's share of the mortgage volume that has been originated.

The 1987 Housing Act, P.L. 100-242, increased the statutory limit on the aggregate number of adjustable rate mortgage loans that the Federal Housing Administration (FHA) may insure in a given year, from 10 percent to 30 percent of the prior year's activity. However, recent experience in conventional markets indicates that ARMs constitute a much higher share of the total mortgage volume. MBA concurs in the recommendation to eliminate the FHA ARM volume limitation which will make the FHA ARM available to more potential purchasers. This will result in having this home financing vehicle available in more markets and offered by a greater number of lenders. There is a hesitancy on the part of lenders at present to make FHA ARMs because at any given time the volume limitation might be reached, particularly when market activity is at high levels.

MBA urges amendment of Section 251 to authorize an FHA ARM program with interest rate adjustments of 2 percent per year with a lifetime cap on potential increases of 6 percent rather than the 5 percent lifetime cap proposed in the concept papers. This would give consumers a wider choice of options with a range of prices. Fixed rates are generally priced at the upper end of market rates, because these are long-term instruments with no interest rate adjustments. An ARM with a 1/5 adjustment would be priced at a somewhat lower mortgage rate than fixed rate mortgages, because the annual adjustments would be limited to 1 percent. A 2/6 ARM, however, would enjoy an even lower initial rate, because investors could anticipate adjustments more in line with the market rate if interest rates increase. Further, FNMA and FHLMC both offer the popular 2/6 ARM, which has become the industry standard.

While the 1/5 ARM has been utilized heavily at times, there have been other periods when it has lain dormant. This has occurred when the interest rate spreads have been narrow--that is, the difference in the price between a fixed rate mortgage and a 1/5 ARM was so small that borrowers opted for the certainty

of the fixed rate mortgage over the relatively small savings afforded by the 1/5 ARM. The authorization of a 2/6 ARM will result in lower initial interest rates and thus will offer a more viable and affordable mortgage option.

At the time that the 1/5 FHA ARM was authorized, ARMs were a relatively new product and it was appropriate to be conservative. However, there is now more experience with ARMs. The typical conventional ARM now originated allows a 2/6 adjustment. Thus, there is a strong track record on these instruments to review potential risks.

The creation of a variety of viable FHA ARM products will spur development and acceptance in the secondary market of securities backed by such loans. This will give lenders who operate solely in the secondary market greater opportunities in making available mortgages that are more affordable to their moderate income customers. ARMs, while not a suitable mortgage choice for everyone, have proven to be both popular and beneficial, because they promote affordability and permit borrowers to choose from a range of options that best suit their particular needs.

Downpayment Requirements

The amount of the downpayment is a key variable in the homeownership affordability equation. For many potential homebuyers, accumulating the downpayment plus closing costs is the major obstacle preventing them from stepping onto the first rung of the homeownership ladder. The FHA program, by allowing people to buy with less than a 10 percent downpayment, supports higher levels of homeownership and higher levels of housing market activity.

MBA supports the recommendation that FHA downpayment requirements be amended to 3 percent of the first \$50,000 and 5 percent of the balance. Current law requires an FHA downpayment of 3 percent of the first \$25,000 and 5 percent of the balance. Adoption of this recommendation will reduce the downpayment on a \$50,000 mortgage from the current law requirement of \$2,000 to \$1,500. This is a modest change, but will be particularly helpful to first time borrowers.

Senator CRANSTON. Thank you very, very much.
Mr. Weigand.

**STATEMENT OF NESTOR R. WEIGAND, JR., PRESIDENT, NATIONAL
ASSOCIATION OF REALTORS**

Mr. WEIGAND. Thank you, Mr. Chairman.

I am Mr. Weigand from Wichita, KS, president of the National Association of Realtors. I'd like to acknowledge Peter Morgan and Ann Scully behind me for giving 4 years of scholarship to our housing programs.

On behalf of the 800,000 members of the National Association of Realtors, we'd like to commend you, Mr. Chairman and Mr. D'Amato, for your work on affordable housing for home buyers of America. As you're aware, first-time home buyers today, more than any other time in the last 10 years, are faced with real obstacles in homeownership.

SUPPORT FOR CONCEPT PAPERS

We strongly support the provisions in the concept papers which allow first-time home buyers and those who have not owned in the last 3 years to invest funds from their IRA's and 401(k)'s in buying or building their principal residence.

The National Association of Realtors also endorses extending the mortgage revenue bond program and the mortgage credit certificate program through 1992. We believe that continuation of the mortgage revenue bond program without any of the additional restrictions proposed by the House Ways and Means Committee is vital to ensuring continued affordable housing in this country.

We support the concept papers' recommendation that the maximum FHA mortgage limit should be capped at 95 percent of an area's median sales price and that there should exist no maximum dollar amount to that limit.

We also endorse the concept papers' proposal to lower the FHA downpayment requirement so that an FHA home buyer pays only 97 percent of the first \$50,000 and 95 percent of the amount over \$50,000.

Further, we eagerly await the authorization of the FHA adjustable rate mortgage with the 2-percent annual cap and the 5-percent lifetime cap.

In addition to the proposals detailed in the concept papers, our association respectfully recommends that you consider the two innovative financing programs developed by Senator Sasser and Senator Heinz which were elaborated on by Senator Sasser in his opening remarks.

The National Association of Realtors supports the concept papers' commitment to extend the authorization of HUD's public housing modernization program. We believe that improving the housing conditions for public housing residents will contribute to a more decent and safer living environment.

Mr. Chairman, we also support the concept of the Home Corp. and the HOP program discussed earlier, which will provide States and localities with resources to support housing programs. We be-

lieve that, given appropriate Federal assistance, States and localities can administer a variety of effective housing programs.

Moreover, our association considers such assistance to State and local governments as a way to provide maximum assistance to needy persons with the minimum of bureaucratic overlay.

Even though the association cannot fully support the rental credit proposal that is offered in the concept papers without further details and analysis, we nonetheless would recommend that you consider the following suggestions as you further develop the proposal for its introduction next year.

First, we believe that the form of payment for rental assistance should continue to go directly to the owner of the subsidized project.

Second, we believe that programs which provide project-based subsidies are more effective than those that provide tenant-based subsidies because they encourage the new production of affordable multifamily housing.

Finally, we would recommend that rental credits provide rental assistance for longer than the proposed 5-year period of time.

Mr. Chairman, the concept papers propose a new elderly housing program which will allow project rents to be based on the actual reasonable costs of building and operating elderly housing. We believe that this proposal is worthwhile and merits further consideration. These reforms will encourage further production of elderly housing by recognizing local development costs and eliminating the restrictive fair market rent system.

We thank you for the opportunity to testify today.

[The complete prepared statement of Mr. Weigand follows:]

This Subcommittee should also consider whether it would be appropriate to increase the sales price amount for modestly priced dwellings upon which a flat 3 percent downpayment is required. Presently, this decreased downpayment requirement applies to dwellings priced at \$50,000 or below. This provision was enacted in 1983 and therefore mortgages originated under this provision have established a track record upon which to assess their risk.

S 2379, the "Homeownership Assistance Act of 1988" co-sponsored by Senators Sasser (D-TN) and Heinz (R-PA), contains a number of proposals that were included in the Report of the National Housing Task Force and which have been included in the concept papers as well. However, S 2379 contains other noteworthy program proposals that were not adopted in the concept papers, but that will enhance first-time homebuyer affordability-most notably the accumulating downpayment mortgage. MBA urges that these concepts, as well should be reviewed during the development of the National Affordable Housing Legislation.

Eligibility of Tax Deferred Retirement Plans for Investment in Housing Downpayment.

MBA supports the eligibility of savings invested in IRA, 401(k), etc. tax-exempt or tax deferred savings accounts for investment in downpayments on homes for first time homebuyers. This recommendation is included in the staff concept paper. The restriction limiting availability of this provision to homes whose sales price does not exceed 110% of the median sales price could prove troublesome to ascertain during the time that prospective borrowers are saving for a home, because that figure is likely to change (most likely to increase but in some areas it could decrease). At a minimum, a hold-harmless provision should clarify that borrowers could use dedicated savings for a downpayment in the event that home prices decrease locally or the borrower moves to a lower cost area. However, this limitation, which is intended to target benefits to moderately priced homes would, in MBA's opinion, negate the need for the \$10,000 cap which is suggested in the proposal. If a cap is established it should be indexed to reflect home sales price increases.

Mortgage Revenue Bonds

MBA supports the use of tax exempt bonds to finance the development of Federal or state assisted multifamily housing for the low-and-moderate income and to meet local, state and Federal environmental requirements. MBA opposes the imposition of volume limitations on the use of tax exempt bonds for housing meeting the needs of low- and moderate-income persons, including the elderly and the handicapped.

MBA also supports the use to tax exempt bonds and mortgage credit certificates (MCCs) to finance home mortgages-provided that both mechanisms are targeted to meet the needs of low- and moderate-income persons, including the elderly and the handicapped. Further, tax exempt bond programs, and MCCs should be simplified, and standards should be applied to make them less costly to homeowners and easier to work with for all participants. Programs utilizing tax exempt bonds should operate in partnership with the private mortgage industry as mortgage originators and servicers.

Adequate Staffing and Training for FHA, VA, and GNMA

MBA is concerned that in the effort to cut the cost of operating the FHA, VA, and GNMA-MBS programs there has been too stringent a reduction in staffing and training of personnel for these vital programs. Not only have these programs suffered from quantitative staff cuts, but the number of qualified staff has been reduced significantly. Training opportunities have been slashed and when new staff have been hired their salaries have been at much reduced levels below that which private enterprise has been able to hire staff of equivalent quality. Congress should appropriate sufficient training funds and authorize adequate staff levels for these programs.

Cutting the quantity and quality of staff for these programs is counter-productive. The FHA single family mortgage insurance and GNMA MBS guaranty programs are completely self-sustaining-user fees cover administrative costs as well as default losses and reserve accumulation. With direct endorsement (FHA) and prior approval (VA), lenders have assumed the burden of processing and

underwriting FHA and VA loans. The task on the single family side has been for FHA and VA to review the quality of the product originated by FHA/VA lenders. To the extent that FHA, VA, and GNMA have been unable to review that product because of staffing cuts, quality could potentially suffer.

In the multifamily FHA programs, however, there are other problems due to lack of staffing. FHA has made it a consistent practice to encourage lenders to process loans under the coinsurance program. Coinsurance lenders are entitled to take on a greater degree of the processing and underwriting for their projects, because they have assumed a share of risk in these multifamily projects. However, MBA is concerned that other lenders who want to utilize the full insurance multifamily programs, where HUD performs the processing and underwriting analysis, have been subjected to significant delays, because HUD has insufficiently staffed the full insurance multifamily programs. For the most part, this conscious decision to favor the coinsurance program over full insurance has hit smaller multifamily lenders (who generally serve less sophisticated market areas) and has hit the more risky loans in older urban areas, which coinsurers are hesitant to make.

PRESERVATION OF AFFORDABLE MULTIFAMILY HOUSING

Rental housing affordability and suitability present a uniquely different set of circumstances to those who either choose to live in rental housing or simply cannot, and, perhaps, will not ever be able to afford to purchase their own homes. MBA would like to emphasize here that the Federal government's role should respond to a spectrum of needs in the area of multifamily rental housing.

Financing rental multifamily housing requires a variety of approaches used alone or in conjunction with one another. These approaches include--insurance programs, subsidized below-market interest rate programs, tax exempt financing, and direct loan subsidies or rental assistance--to name a popular list of the approaches that have been used and have proven themselves.

Federal, state, and local governments must share the responsibility for providing suitable multifamily rental housing. The Federal government has a number of

programs that are currently working well. Many states have viable and active assistance programs. A number of non-profit groups have developed the expertise and the funding sources to provide assistance. Private, profit-motivated companies have the experience and capacity to produce, finance, and manage rental housing. These efforts should be coordinated at the state and local levels to assure that housing needs are addressed in the most efficient and effective manner possible. Thus, MBA concludes that multifamily rental housing requires diverse approaches by a variety of participants, governmental as well as private.

There are functions best suited to each level of government and to a wide variety of private sector entities engaged in providing housing assistance. We believe that state and local governments, assisted by private non-profit and for-profit entities, are best able to define their housing needs and should have the responsibility for determining which programs best meet those needs. In an era of limited resources, someone must be responsible for determining how those resources will be distributed and we suggest that those choices should be made at the local and sometimes, state level.

MBA would like to stress that currently there is a strong existing multifamily delivery system that is capable of producing housing for certain income levels. With program adjustments and funding assistance, inactive programs can be reinvigorated. Improving existing concepts and programs is a viable approach, because many of the current programs are basically sound and can be made more efficient and workable with only minor changes.

Having made these general observations, MBA would like to make some further specific comments and recommendations.

Multifamily Housing Delivery System

As a general principle, where local housing market conditions allow, housing policy should look first toward the use and preservation of the existing stock of housing and surrounding community facilities, before new construction is undertaken. However, demand-side programs, by themselves, will not provide adequate incentives to build new housing.

The very poor are best served through low-rent public housing. Because the supply of public housing is currently inadequate to meet the need, national housing policy should have a component for the construction or acquisition of new public housing units to serve this group, as well as the repair and modernization of existing housing projects.

The Section 202 direct loan program for the elderly, as noted in the concept papers, suffers from budget scorekeeping double counting. MBA, which has consistently supported housing assistance for the elderly, supports a mortgage insurance program paired with project-based assistance to address the budget concerns outlined in the concept papers. Furthermore, we endorse the supportive service concepts inaugurated in these papers, as pivotal to meeting the needs of the elderly and as a good sense method of holding down outside social service costs.

A national scale and a more universally workable housing assistance program for low- to moderate-income families and individuals is needed. We recommend a program that would have the following characteristics:

- New construction or rehabilitation of projects in which 20 to 25 percent of the units would be set aside for low-income occupancy;

- The projects could be financed through FHA-insured or conventional mortgages which, in turn, could be financed with tax-exempt bonds and/or a direct interest subsidy program;
- Rental assistance should be provided so that tenants would have to pay no more than 30 percent of their income for rent. The rental credit concept deserves full study. Its attractiveness lies in the flexibility it offers to make assistance tenant-based or project-based, depending on the needs of the locality.
- The rent subsidies would be contracted for a 20-year term with the government having the option to renew the subsidy contracts at the end of 20 years if the units are still needed to house low-income households.

Such a program combines the best attributes of many of the former subsidized housing programs. It does not concentrate a large number of low-income households in single projects. The mix of incomes achieved in a 20-25 percent subsidized project is beneficial to tenants, landlords, and neighborhoods. It is important that FHA insurance be available to these projects, particularly in the early stages of the program and in areas where state housing finance agencies are unwilling or unable to finance the projects without insurance. Also, the use of tax-exempt bonds or interest subsidy payments, is important in order to lower the rents on unassisted units in the projects, which will allow occupancy by moderate-income families of the 75 to 80 percent unsubsidized units. Such assistance is particularly needed in areas with very tight rental markets.

Multifamily Maximum Mortgage Amounts

MBA supports adoption of a formula for calculating the FHA multifamily maximum mortgage amounts, which would allow these programs to keep pace with rising costs, to reflect appropriately high-cost areas, and to allow for individual project differences. We would like to note that the concept of project-by-project analyses whereby the HUD Secretary can determine on an individual basis that further increases are appropriate should be retained even if the multifamily

maximum amounts are adjusted to reflect areawide costs. MBA is pleased to see that the concept papers recognize that supportive services add to financing and operating costs. Project Retrofit will provide a necessary boost to allow these services to be included.

Individual features or programs offered by a multifamily project that are tailored to address specific community needs can add to a project's operating costs, and a mechanism to accommodate financing of these costs on a individual basis should be retained. Indexing of the base maximum mortgage amounts would also allow these programs to operate more effectively and keep pace with rising costs.

Budget Treatment

There is inherent unfairness in the way multifamily housing assistance programs are treated in the Federal budget process. One major reason why housing programs are viewed as so expensive is the current practice of counting the life cycle cost to the government of the housing assistance. The concept papers recognized this problem and have made an attempt to deal with it. We urge that Congress enact budget accounting measures that do not unfairly represent the costs of housing assistance programs in comparison with how similar costs for non-housing programs are treated in the budget.

Summary

The proposals included in the concept papers regarding preservation of affordable housing and state/local housing strategies will generate a good deal of debate. Because MBA policy on these issues reflects existing programs and the concept papers envision entirely new financing mechanisms that will require further study and input from MBA's membership, we are unable at this time to offer more specific comments than are contained in our views reflected above. However, MBA will continue to review these proposals as they are further developed and will offer supplemental views when available.

Taxation

Another noteworthy legislative proposal is S 2711, "The Housing Grant Action Program Act of 1988," cosponsored by Senators Dodd (D-CT) and D'Amato (R-NY). The section of this bill calling for tax and housing policy coordination, in particular, is long overdue. As spending has been wrung out of the housing delivery equation, tax incentives have become the element upon which the affordability of a financing package turns. The social policy underpinning tax decisions must be better understood and MBA hopes that a formal coordinated analysis will better serve to deliver suitable, more affordable housing.

MBA strongly supports the continuation of the mortgage interest deduction without further limitation. Congress has already taken the first step in limiting the home mortgage interest deduction by setting a cap of \$1 million on the mortgage amount eligible for deduction. While many argue that this step hardly impacts on homeownership objectives of most Americans, this first step has already resulted in other, more onerous, proposals being discussed in the Congress. The home mortgage interest deduction is a piece of the stable and valuable foundation that Congress has laid to support homeownership.

Future Federal tax policy, both from the legislative and regulatory perspectives, must be an integral part of the establishment of a national housing policy. Tax policy should be revisited with a view toward assuring that adequate incentives exist for investment in rental housing, particularly for lower income families and individuals. With respect to tax treatment of rental housing, particularly for lower income families and individuals and congregate living, Congress should review the following:

- All passive losses from real-estate activities should be allowed to offset other income without limitation. At a minimum, passive losses from persons who materially participate in real estate activities and persons who invest in low- and moderate-income housing should offset other income without limitation.

- In all instances of real estate activities, all cash out-of-pocket ownership and operating expenses should be currently deductible against any income.
- MBA supports the use of tax credits as one mechanism to encourage the continued development of low- and moderate-income housing. Further, MBA supports the extension of current law providing for the use of tax credits for these purposes through 1990 to enable current projects utilizing the credit to proceed to construction and to provide a reasonable period of time to rectify, where possible, any technical problems now found in the administration of the credit.
- Construction period interest and taxes should be amortized over 10 years;
- Favorable capital gains treatment should be reinstituted for sale of real estate; and
- Limits on the volume of the tax-exempt bonds that may be issued for the financing of low-income rental housing should be removed.

SUMMARY

MBA commends this Subcommittee for facing up to the magnitude of housing problems and recognizing the reality that it will be expensive to provide decent and affordable housing of all Americans. Clearly, we are all challenged to set our collective will to the task of doing whatever it takes to address the Nation's housing dilemma. The problems will not go away and must be addressed as a national priority.

It is important to understand that housing is an issue for all Americans. For many middle income and young families, homeownership is a fading dream as a result of high interest rates, rising home prices, and substantial downpayment requirements.

The Federal government has created a home finance system that has made homeownership possible for over 60 percent of American households. This

devotion of resources to its citizens must not be scaled back or diminished as we face the demographic demands of prospective young homeowners in the 1990s. These concept papers recognize and continue to underscore the importance of homeownership, particularly for first time homebuyers.

The most difficult element of this enterprise, of course, are the proposals to address the complex and more costly housing needs of low- and moderate-income households as well as the specialized needs of the elderly, handicapped, and low-income families. Homelessness is a national tragedy in a country such as ours.

The mortgage lending community wants to commit its energy, skill, and resourcefulness to providing adequate housing for all citizens. In a working partnership with Federal, state, and local governments, lenders will join with others, both for-profit and nonprofit-entities, to help address housing needs for all Americans.

MBA appreciates the opportunity to submit this statement and looks forward to the opportunity to participate in the continuing dialogue and effort to forge viable housing opportunities for all of America's citizens.

STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS®
BEFORE THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE
U. S. SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
BY
NESTOR E. WEIGAND, JR.
PRESIDENT
SEPTEMBER 14, 1988

INTRODUCTION

Mr. Chairman, Members of the Subcommittee, my name is Nestor Weigand. I am a REALTOR® from Wichita, Kansas and the 1988 President of the NATIONAL ASSOCIATION OF REALTORS®. On behalf of the more than 800,000 members of our Association, I would like to thank you and the Members of the Subcommittee for your commitment to promoting affordable housing opportunities for our Nation's citizens, and for this opportunity to testify on the proposed concept papers on the National Affordable Housing Act which will be the basis of comprehensive legislation to ensure the continued viability and affordability of housing for all Americans.

Mr. Chairman, 1989 brings new challenges for the housing industry. As we are too painfully aware, the 1986 tax reform legislation has reduced incentives for real estate investment, development and, consequently, ownership. This has been particularly true with respect to serving younger families who have had trouble buying homes and who have had to subsequently remain renters.

It should come as no surprise that the rate of homeownership among young adults has declined substantially in the last decade. This has been directly attributed to the increase in housing prices, especially for single family homes, as well as volatile mortgage interest rates. Although the trend has been favorable in the last four years, recent statistics do not lend themselves to as favorable a prediction, particularly regarding prospects for continued availability and affordability of housing. Let me give you an example. Sales of existing single-family homes declined 5% from June to July of this year, to a seasonally adjusted rate of 3.63 million units, primarily because of rising mortgage interest rates. The overall decrease in sales was experienced in all regions except the West Coast.

Mr. Chairman, after 35 years of increase, homeownership rates began to decline in 1980. This is a very dangerous trend, and one that does not bode well for the continuation of the American Dream -- owning one's own home. We would note, in particular, Mr. Chairman, that unlike previous debates on Federal housing policy which have tended to focus on the needs of poor and lower-middle income class people, the debate now also is focusing on the middle class and the first-time homebuyer, who see that dream slipping away before their very eyes.

The NATIONAL ASSOCIATION OF REALTORS® has been a strong proponent and participant in your ongoing efforts to develop a comprehensive and effective National Housing Policy. To that end, our testimony will comment on the component parts which are to be the foundation of your legislation.

EXPANDING HOMEOWNERSHIP OPPORTUNITIES - FINANCING FOR DOWNPAYMENTS

Mr. Chairman, first-time homebuyers today, more than at any other time in the last ten years, are faced with formidable obstacles to homeownership. The purchasing power of the first-time homebuyer, compared with that of the

overall homebuying public, has deteriorated to its worst point in a decade, particularly for the entry-level purchaser. If we are to help these first-time entry-level homebuyers, we must overcome what the NATIONAL ASSOCIATION OF REALTORS® believes to be one of the primary problems hindering their entry: the inability to accumulate a downpayment.

Today, the potential first-time homebuyer faces a less hospitable environment --in fact, more hostile conditions -- in trying to save enough for a downpayment to fund a five or ten percent downpayment loan than his colleagues did ten years ago. Why? First, the tremendous increase in after-tax housing costs since the late 1970s has made a higher downpayment necessary. Secondly, the concomitant increase in rental payment burden -- ranging from a low 23-25 percent of income in the early 1970s to a high 40 percent range in the early 1980s -- has made it difficult for a renter to amass enough savings for a downpayment and to become a homebuyer.

Consequently, Mr. Chairman, the foundation of a comprehensive national housing policy must address this issue. New approaches must be developed to provide ways to increase the downpayment resources for the buyer. On behalf of the NATIONAL ASSOCIATION OF REALTORS® I am pleased to state that the concept papers do address the issue.

The NATIONAL ASSOCIATION OF REALTORS® strongly supports the provisions in the concept papers which would allow first-time homebuyers and those who have not owned in the last three years to invest funds from an Individual Retirement Account (IRA) or a 401(k) retirement account in buying or building a principal residence.

Mr. Chairman, the use of one's IRA or 401(k) to fund a downpayment in one's home is rational, logical and totally compatible with promoting the means for homeownership affordability for several reasons. First, IRAs, 401(k) plans and homeownership are integral and very important parts to a household's retirement program. All insure retirees from becoming poor and

needy. Indeed, this premise is built into the legislation underlying retirement funds and homeownership. In 1981, the Individual Retirement Accounts were revised in order to supplement Social Security and to improve individuals' prospects for a secure retirement.

Since that time, Mr. Chairman, IRAs have become the most popular form of saving for individuals when eligibility was extended to all employees. That popularity has remained relatively high, despite the elimination of some of their preferential tax advantages in the 1986 Tax Reform Act. (The final bill leaves the limits as they were but phases out the deductibility of contributions for families earning over \$40,000 and single persons earning over \$25,000.) Indeed, statistics reveal that total contributions to these plans grew from \$5 billion in 1981 to an estimated \$45 billion in 1986.* IRAs have produced additional, badly needed savings for the economy by encouraging this \$200+ billion rise in accumulated savings which, in and of itself, has had a salutary effect on individuals' retirement security as well as on our nation's economy.

IRAs and 401(k) plans are a primary means by which individuals contribute to their security. It is an equally valid assertion that ownership of a home is also a capital contribution to an individual's retirement security. Given the similar security each form of savings provides for retirement, it makes infinite sense to draw upon the funds designated for retirement and channel them into the purchase of another retirement asset -- a home.

Mr. Chairman, we recognize that critics of this proposal will contend that permitting low- to moderate-income first-time homebuyers to use their IRAs or 401(k) plans as a downpayment will not assist these targeted groups because

* Steven Venti and David Wise, Working Paper No. 2217, National Bureau of Economic Research, April 1987

they either have not nor will likely contribute to IRAs or other retirement funds at all. Documentation actually indicates to the contrary: in 1983-84, for example, over 70 percent of those individuals contributing to IRAs had incomes below \$50,000 and 52 percent had incomes below \$40,000. Indeed, many of the target groups of your proposal already had IRAs prior to that date.

This is significant, Mr. Chairman, because it reveals that contrary to the conventional wisdom that the majority of IRA contributions were and will continue to be made by the wealthy, in fact the targeted groups have contributed to IRAs, have established these funds for retirement (in many cases independent of other savings plans) and have exhibited the attitude and incentive that would in all likelihood breed success for this type of program.

Second, use of an individual's IRA or 401(k) plan to fund the downpayment for owner-occupied housing will provide at a minimum, an equal if not more favorable "return on the investment" in the equity build-up and tax savings of the home for retirement purposes for the low- to moderate-income target group than solely accumulating savings in tax-deferred savings plans. Let me give you an example:

Our data indicates that for a "base case" reflecting assumptions regarding inflation, house price appreciation, tax rates and, mortgage rates that have been "typical" of the last several years*, the average annual after-tax rate of return to housing (over an eight year period) is 12.2 percent. While this return is fairly sensitive to the assumed rate of house price appreciation and may otherwise vary over individual households and geographic sectors of the country, it generally exceeds the after-tax return obtained from other longer-term investments -- i.e., IRAs and/or 401(k) retirement plans.

* Specifically, in the base case, the inflation rate is assumed to be 3 percent, the annual increase in house prices is 6.5 percent, the mortgage rate is 10.5 percent and the household is in the 28 percent income bracket.

The conclusion in this case is quite obvious: using proceeds of one's retirement plan as the downpayment for a house will provide greater returns on the investment, greater financial stability and a higher standard of living for more of our population. More importantly, the successes will not be accomplished at the sacrifice of Federal revenues for other programs.

EXTENSION OF MORTGAGE REVENUE BOND AUTHORIZATION

The NATIONAL ASSOCIATION OF REALTORS® strongly endorses extension of the Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs through 1992. As you know, authorization for the provisions of these programs is scheduled to expire at the end of this year.

We believe that continuation of the MRB program, particularly with the revisions you have proposed to the general framework, is vital to ensuring continued affordable housing in this country for several reasons.

First, the MRB program is the only program being offered by the Federal government that directly benefits first-time homebuyers. We believe that continuation of the MRB program is, without a doubt, one of the most critical factors in the effort to reverse the trend toward declining homeownership that has occurred during the 1980s.

Further, by offering below-market interest rates to first-time homebuyers, the MRB program serves as a hedge against high interest, inflationary times and sustains the housing industry in periods of adverse economic conditions. Moreover, the salutary effect of the MRB policy during periods of high or volatile interest rates is to prevent a further decline in homeownership with the accompanying positive impact that homeownership, as a whole, has on community pride and development.

Finally, our data and data compiled by other housing-oriented industries reflect that the MRB program does serve the purpose for which it was intended: to provide financing for a slightly younger and lower income segment of the population who cannot qualify and/or utilize conventional financing for their first-time home purchases. Specifically, we found that first-time homebuyers utilizing MRB loans make downpayments on their purchases that are 57% lower than downpayments on purchases utilizing conventional financing, purchase homes that are 33% less expensive than conventionally financed first-time purchases, and have incomes 20% lower than their counterparts who obtain conventional financing.

Mr. Chairman, the Tax Reform Act of 1986 placed several restrictions on the MRB program in order to ensure that the funds were indeed targeted to low- and moderate-income, first-time homebuyers. First, MRBs are subject to statewide volume caps. Second, MRBs are limited to persons of specified income limits. Third, the purchase price of the MRB-financed residence cannot exceed 90 percent of the average area purchase price. Finally, and most significantly, at least 95 percent of the the MRB funds must be used to provide loans to first-time homebuyers.

These restrictions are in place, Mr. Chairman, and the survival of the MRB program, which is critical to affordable homeownership should be ensured. Its survival beyond these restrictions, however, must be unconditional and come with no strings attached. In that vein, we are opposed to the imposition of any additional restrictions on either the conditions for MRB loans to first-time homebuyers -- such as the proposal that would require recapture of the mortgage revenue bond subsidy upon the disposition of an MRB-financed home -- which has been approved by the House Ways and Means Committee during its consideration of the Technical Corrections bill.

FEDERAL HOUSING ADMINISTRATION (FHA)

The concept papers establish a goal that the National Housing Policy should strive to enhance homeownership opportunities for individuals and families of modest means who wish to own a home but are precluded from benefiting from the Federal government's homeownership program because either local market conditions or changing national economic conditions fail to keep pace with the legislated provisions of the Federal Housing Administration (FHA) mortgage insurance program.

The NATIONAL ASSOCIATION OF REALTORS® wholeheartedly supports this goal. We believe that it is proper and necessary for the Federal government to enact and implement a progressive National Housing Policy that strengthens the existing homeownership assistance program for first-time and low-to-moderate income homebuyers, enhances its availability and assures its viability and attainability in all of this nation's real estate markets.

As stated in the concept paper, there exist three categories of individuals and families to whom Federal homeownership benefits should be directed under an effective National Housing Policy. These categories are:

- o Those individuals and families who are unable to utilize the FHA program because local housing costs exceed the permissible FRA mortgage limit.
- o Those individuals and families who are unable to meet the minimum downpayment requirement.
- o Those individuals and families who are unable to meet the monthly payments required by market interest rates.

The NATIONAL ASSOCIATION OF REALTORS® strongly supports the concept papers' recommendation that the maximum FHA mortgage limit should be capped at 95 percent of an area's median sales price and that there should exist no maximum dollar amount on that limit. This recommendation recognizes that housing prices can vary greatly between cities and regions. An effective Federal homeownership program must extend its benefits to those individuals and families who are unable to utilize the FHA program solely because local housing costs exceed a mortgage limit established under the economic conditions of disparate cities, counties and regions.

The NATIONAL ASSOCIATION OF REALTORS® enthusiastically supports the concept papers' proposal to lower the FHA downpayment requirement so that an FHA homebuyer need pay only 97 percent of the first \$50,000 and 95 percent of the amount above \$50,000. (Presently, FHA homebuyers are required to pay 97 percent of the first \$25,000 and 95% of the loan amount above \$25,000.) The NATIONAL ASSOCIATION OF REALTORS® estimates that this change will benefit those individuals and families who are presently unable to pay more than a minimal downpayment.

The NATIONAL ASSOCIATION OF REALTORS® supports and eagerly awaits the authorization of an FHA Adjustable Rate Mortgage with a two percent annual cap and a five year lifetime cap. Presently, FHA ARM loans are limited to a one percent annual cap and a five percent lifetime cap. This recommendation makes available, under the FHA program, a mortgage product that has been successfully utilized by the conventional mortgage market for over four years, and thus provides a useful loan product whose monthly payments are much more affordable than those for a fixed rate loan.

In addition to the proposals detailed in the concept papers, the NATIONAL ASSOCIATION OF REALTORS® respectfully recommends that you consider the two

innovative downpayment financing programs developed by Senators Sasser and Heinz. Their bill, S. 2379, "The First-Time Homebuyer Assistance Act of 1988", would authorize FHA to create two beneficial homeownership assistance plans, as follows:

- o Accumulating Downpayment Mortgage - This proposal authorizes FHA to insure a loan for a qualified first-time homebuyer to finance the entire purchase price and closing costs for a home purchase. The bill proposes that the homebuyer should pay the amount of the standard FHA downpayment, with interest, on a monthly basis along with the regular mortgage payment during the first three years of the loan.
- o Downpayment Second Mortgage - This proposal authorizes FHA to insure second mortgages that are used to finance downpayments for low-income first-time homebuyers receiving government-assisted financing. Additionally, the proposal authorizes the Government National Mortgage Association (GNMA) to create a secondary market for both FHA and privately-insured second (downpayment) mortgages. The proposal would limit such second mortgages to \$5,000 and require its amortization over a five to ten year period.

PRESERVATION OF AFFORDABLE HOUSING

The NATIONAL ASSOCIATION OF REALTORS® supports the concept paper's commitment to "extend authorization for the Comprehensive Improvement Assistance Program to modernize the nation's stock of publicly-owned, low-income housing." We believe that improving the housing conditions for public housing residents will contribute to a more decent and safer living environment.

To further contribute to the ability of public housing residents to improve their living environment, the Association supports tenant participation in management and allowing tenants the opportunity to acquire ownership of public housing units. However, the Federal government should assure that the tenant can afford all the costs of ownership and that local resources be utilized to the maximum extent possible to assist those persons who want to work to move into homeownership. Tenants should be provided professional management assistance on the responsibilities of homeownership and how to properly maintain the property.

In fact, Mr. Chairman, the concept papers make no reference to the need for professional management. Poor management has led to many of the housing problems we are experiencing today and which you are attempting to rectify in the concept papers. The NATIONAL ASSOCIATION OF REALTORS® believes that proper housing management is a key ingredient to the preservation of affordable housing while poor management contributes to the premature foreclosure of multifamily properties.

The concept paper on "Homeownership Affordability" includes a list of factors which are "contributing to the diminished supply of affordable housing." While the factors listed are important and relevant, we believe that there is an additional factor which plays a significant role in discouraging investment in rental housing in many markets: rent control and its adverse impacts. By restricting a landlord or owner from charging normal market rents through rent control ordinances, local governments inhibit the development of new projects and reduce the incentives and ability of owners to properly manage and maintain existing buildings.

THE HOME CORPORATION/HOUSING OPPORTUNITY PARTNERSHIP (HOP)

The concept paper on "Investment in State and Local Housing Strategies" states that the National Affordable Housing Act "will establish within HUD a

new corporation responsible for providing federal support to state and local strategies that expand the supply of affordable housing." The HOME Corporation will administer a Housing Opportunity Partnerships (HOP) program to provide States and localities with resources to support housing programs. The HOP program will transfer resources to the State and local levels for use in programs that support efforts to provide affordable housing.

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® supports this concept. We believe that, given appropriate Federal assistance, States and localities can administer a variety of effective housing programs. Moreover, the Association considers such assistance to States and local governments as a way to provide maximum assistance to needy families and persons with a minimum of bureaucratic overlay. The HOME Corporation and HOP program system, as presented in the concept papers, meets these objectives by limiting the Federal bureaucracy and devising a direct and flexible stream of assistance to States and localities for use in providing affordable housing.

The concept paper states that "funding (for the HOME Corporation) will be provided in appropriation acts." We support this approach, emphasizing our position that funding should come from the general Treasury through annual appropriations, not from taxes assessed against real property owners.

To receive HOP assistance, States or localities must prepare a "five-year housing strategy," which will describe the community's housing needs, analyze the obstacles to development, describe how the community plans to meet those needs and reduce those obstacles and report on several other community housing issues. Mr. Chairman, we believe that these housing strategies will be an effective way for communities to assess their housing needs and determine what can be done to improve their housing conditions. We are especially interested in what local impediments contribute to the lack of affordable housing.

The NATIONAL ASSOCIATION OF REALTORS® firmly believes that the short supply of new multifamily housing development is attributable in part to

restrictive government regulations. Solutions need to be developed to address the number of unnecessary government regulations that impede development and consequently increase development costs, such as stringent building codes, zoning regulations, impact fees, growth controls and Federally mandated wage rate standards. The private industry cannot be expected to provide an adequate amount of affordable multifamily housing unless governments at all levels alter their regulatory policies. Many of the regulations must be relaxed or even eliminated if you hope to stimulate housing production.

In fact, Mr. Chairman, we urge Congress to consider prohibiting Federal funds to those localities unwilling to revise unreasonable local regulations which inhibit the growth of affordable housing.

The concept papers discuss annual fees which will be paid on HOP Investment Certificates and deposited in a reserve fund to back guarantees of payments on HOME Corporation securities. These fees will supplement other fees charged on guarantees to provide the initial capitalization of the reserve fund. We are concerned about this provision because it is not clear as to who will be paying these fees and how burdensome these fees may be on the State or local agencies issuing the investment certificates.

However, we recognize the importance of maintaining a strong reserve for any guarantees on securities backed by the HOME Corporation. Mr. Chairman, we would request that you consider our concerns and keep any fees on investment certificates as minimal as possible while finding the best solution to adequately protect the HOME Corporation guarantee fund.

The concept paper contemplates an appropriation to provide the initial capitalization for reserves and operating capital for the HOME Corporation's credit enhancement system. This appropriation would then be supplemented and maintained by "fees charged on the use of the guarantees and by fees paid on

HOP Investment Certificates." While we agree that funding the reserve by sources other than guarantee fees, i.e. fees on Investment Certificates, will allow the HOME Corporation to charge lower guarantee fees, we still believe that you should attempt to minimize the fees charged on HOP Investment Certificates.

The NATIONAL ASSOCIATION OF REALTORS® recommends that you consider encouraging the states to use the HOP funds for a direct subsidy program for first-time homebuyers. The HOP program offers an efficient way to provide States and localities with the resources to implement such a program.

HOME Corporation Securities

The concept paper outlines a plan to create a "new form of credit enhancement by guaranteeing securities backed by pools of mortgages on affordable rental housing." As with similar forms of mortgage-backed securities, this instrument could be a highly effective way to encourage investment in affordable rental housing. The sales of such securities would help provide capital for the financing of low-income and moderate-income housing.

The concept paper states that qualified underwriters will have access to HOME Corporation guarantees "with a minimum of federal red tape." The paper goes on to clarify the intent that less experienced underwriters will still be able to make use of the guarantee provided that these issuers use "FHA insurance, co-insurance or other forms of mortgage insurance, including forms of insurance developed by the HOME Corporation." The NATIONAL ASSOCIATION OF REALTORS® believes strongly that this program must not expose the FHA fund to increased risk of potential loss from defaults. Therefore, we believe that this guarantee program must be structured to minimize such risk, such as through strict underwriting standards and appropriately defined insurance programs developed by the HOME Corporation.

Senator CRANSTON. Mr. Lacy.

**STATEMENT OF WILLIAM H. LACY, PRESIDENT, MORTGAGE
INSURANCE COMPANIES OF AMERICA**

Mr. LACY. Thank you. Mr. Chairman and members of the subcommittee, I'm William Lacy, president of MICA, Mortgage Insurance Companies of America, and president and chief executive officer of Mortgage Guarantee Insurance Corp., Milwaukee, WI. Our firm was the founding firm in the private mortgage insurance industry. Over the past 30 years, over 8.5 million home buyers have been able to purchase homes because of lower downpayments provided by our industry's guarantee.

Our industry's views can be identified with the consensus forming on the new housing policy. We believe strongly in targeted government assistance to those households with special needs. We support the building of a better partnership between the private sector and the public sector.

Our written statement presents several important points. One is that the recommendations in the staff concept papers that the FHA programs be expanded to cover properties priced at 95 percent of median house price incorrectly targets FHA. It makes housing policy more concerned with selling certain classes of houses rather than putting moderate income people into a home of their own. It would lead to an unprecedented expansion of FHA, potentially reducing by half or more the borrowers served by the private sector of the mortgage guarantee companies.

This would also be true if the proposal for expanding FHA as submitted in the Heinz-Sasser bill were adopted.

We must be more concerned with the home buyers' needs and those that need direct assistance. FHA lending should be guided by income, not median house price. FHA is a people's program and it needs to be based upon income.

If house prices rise because people buy larger homes or if FHA gets more trading-up home buyers than first-time home buyers, this will raise the FHA limits even further and the Government support will be lost to the lower income households. That's the way the marketplace works in terms of housing prices and setting FHA eligibility at 95 percent of median sale price would just make home prices go up higher.

Permitting the Government to assist people with income sufficient to purchase median priced homes would in many high-cost markets mean that the eligible home buyers are well above median income and in the upper income brackets. To better understand how this proposal might in fact work, one could relate to the size of a home, the type of amenities that add to a home's value, and even the land costs in desirable locations. Such factors greatly influence house prices. It is not appropriate for the Government to determine eligibility on 95 percent of sales price in an area known for larger homes or for homes with costly amenities.

Any proposal that is truly targeted to assist first-time home buyers should ask what is an appropriate starter home? It would ask how many of today's people who buy homes really need Government assistance to buy above the median price as a first-time

home purchase? Should the typical consumer expect that kind of starter home?

Again, it's a question of who the Government is intending to serve.

FORECLOSURES

The second point I would like to make is that in addition to putting people into homes, the housing policy must be concerned with keeping people in those homes. Foreclosures continue to take place in greater numbers than since the late 1930's. Between 1980 and 1981, residential loans in foreclosure have gone from 4/10ths of 1 percent to 1 percent. From a statistical standpoint, this represents more than the entire decline in homeownership rates upon which proposals for expanding FHA have been premised.

Today, sitting in Washington, it may be very difficult to see the realities that exist in markets like Houston, Denver and any other number of cities. FHA foreclosures are at record high levels. At the end of July, HUD listed over 5,000, close to 6,000 foreclosed homes for sale in Denver alone. This is up from 2,500 properties just a year ago. The point is that we've seen housing market declines.

Our analysis shows that overbuilding and overlending are the primary cause of the defaults in problem markets. In effect, we've done it to ourselves in the housing sector. We hurt the housing markets by putting too much money into some hot markets.

The MBA has said that the MI's have left certain markets or abandoned them. I think that's too strong a word. I don't believe our industry has abandoned markets like Texas. It is true that we've changed and adjusted underwriting guidelines to reflect the risks in those markets but we have certainly stayed in those markets and are there today insuring mortgage loans.

Perhaps my testimony is a little bit different than some of the others who are here talking this morning. Our companies focus basically on the side of the borrower. What's good for the borrower is good for us. If they lose their home, we lose in terms of claims payments.

We look to the need to target FHA. We also look for more opportunities to work with this subcommittee on some of those ideas. We've submitted our views. I'd be happy to discuss any of those ideas and I thank you for this opportunity.

Senator CRANSTON. Thank you very, very much.

[The complete prepared statement of Mr. Lacy follows:]

Similarly, the Association believes that the program must be structured so as to minimize the risk to the HOME Corporation reserve fund, especially because it will be critical that this guarantee program be seen as strong and as credible as those of other government-related financial institutions, such as Ginnie Mae and Freddie Mac. We believe that prudent design and reasonable initial appropriations for the reserve fund will establish the HOME Corporation as a significant addition to the array of financial institutions now serving housing needs.

Other Support for State and Local Housing Strategies

The concept paper proposes that Congress authorize the HOME Corporation to "promote the expansion of benevolent lending throughout the United States to increase the flow of private capital into low-income housing through the establishment of benevolent loan funds..." While the Association supports the concept of benevolent loan funds, we are concerned about the risk such funds may place on the FHA insurance fund and the U.S. Treasury.

We support the central idea behind benevolent lending, i.e., that funds can be made available to support low-income housing if some investors will be willing to accept less interest on fund deposits as a charitable act. However, Congress should ensure that any mortgage made from these funds will follow appropriate underwriting standards and processes to protect the fund. Because the FHA can be expected to insure many of these mortgages, Congress should require the FHA to develop procedures that will protect the insurance fund under this program.

The concept paper also proposes that the HOME Corporation should "assist state and locally initiated efforts to establish privately owned, local community development banks to fund affordable housing activities." Mr. Chairman, we support the concept of community development banks, because we

recognize the effective ways in which such institutions can contribute to the production of affordable housing and revitalization of troubled communities. We believe that these community development banks should be supported mainly by private capital, although we recognize that a modest appropriation of start-up capital would be appropriate.

RENTAL ASSISTANCE

The concept paper on "Low Income Rental Assistance" proposes to "establish a new form of low-income rental assistance, to be called 'rental credits,' which will replace the current vouchers and certificates." By incorporating the features of vouchers and certificates into a new hybrid, it could significantly improve rental assistance delivery.

The NATIONAL ASSOCIATION OF REALTORS® is interested in this new form of rental assistance proposed in the concept papers. Although the Association cannot fully support the new rental credits before considering more details, we would like to offer a few comments to inform you of our concerns.

First, we believe that the form of payment for rental assistance should continue to go directly to the owner/landlord of the subsidized unit. This simplifies the system of assisting subsidized housing and reduces any potential payment problems.

Second, the NATIONAL ASSOCIATION OF REALTORS® has concerns with the concept paper's suggestion that States and localities should be given discretion to use rental credits as tenant-based or project-based housing assistance. The Association has supported those programs that provide a project-based subsidy because project-based subsidies have the end result of encouraging the production of multifamily housing. If the government means to encourage the construction of new multifamily properties, and we believe it does, then the emphasis of this new housing program should be on project-based subsidies.

developers that producing and maintaining affordable housing is not such a risky enterprise, and that they are assured of payments which will bring them an adequate return. Without this assurance, many owners may not feel confident enough to make the long-term commitment required to produce affordable rental housing.

Next, we would like to comment on the concept paper's proposal to "permit a state or locality to recommend an alternative fair market rent (FMR) schedule that more precisely reflects rent variations in submarkets within its jurisdiction," provided that, among other requirements, the Secretary finds that "the alternative fair market rent system can reasonably be expected to involve no extra cost to the federal government."

This idea seems to be an appropriate way to allow certain markets to adjust their FMRs, but we are concerned that the "extra cost" consideration will force states and localities to reduce FMRs in some submarkets in order to raise them in other submarkets within one jurisdiction. We believe that the current FMR system is adequate because it allows appeals in cases where HUD sets the FMR too low.

HUD is aware that its rent schedules are not always accurate for all market areas. Accordingly, its procedures provide for appeals of fair market rents when interested parties believe these rent estimates can be improved. Under the procedures, interested parties are asked to submit written evidence to HUD showing that actual rents in the community are different from HUD estimates. Thus, a more suitable policy than the one included in the concept paper would allow states and localities to recommend higher FMRs for high rent submarket areas without forcing down FMRs in other areas that are not characterized by lower rent schedules.

Finally, the concept paper proposes to "limit eligibility for rental credits to people with family incomes at or below 50 percent of the area median," except to avoid displacement of tenants from Federally subsidized

Furthermore, under the voucher program, some project managers are reporting significant vacancies in some markets where tenants have taken their vouchers and "walked" to other projects leaving vacancies in some projects where vacancies never existed. This action is causing negative cash flow at these properties and consequent hardships and potential for defaults and foreclosures of some properties. We recognize that tenant-based assistance can assist recipients in choosing housing themselves and that tenant-based assistance may be appropriate where there is an adequate existing stock of private rental housing. However, we believe that it is appropriate for Congress to require that a certain percentage of rental credits be used as project-based assistance.

Project-based assistance promotes project and neighborhood stability by increasing the likelihood that tenants will remain in units where they are living. It encourages owners to provide housing for low-income persons for extended periods of time, thereby reducing the chances that tenants may be dislocated or displaced. In addition, assigning people who need housing to units covered by project-based subsidies eliminates some of the difficulty in finding housing associated with tenant-based assistance.

Moreover, housing markets in many areas are so tight that project-based subsidies are necessary to promote the development of affordable rental housing. The direct commitment of Federal resources through project-based subsidies is a more efficient way to encourage new construction and rehabilitation than tenant-based assistance. Finally, if owners are not assured that they will receive a guaranteed rent, then some of these structures will go into default, thus impacting on the insurance fund.

Third, we would like to comment on the concept paper's suggestion that rental credits should carry a five-year commitment. We would recommend that you consider extending the commitment beyond a five year period. If a longer commitment is provided then it will communicate to housing owners and

apartments with incomes between 50 and 80 percent of area median. We have concerns with restricting income-eligibility to people with family incomes at or below 50 percent of median income because we believe it is socially advantageous to have mixed income dwellings.

In limiting assistance to the very poor, professional property managers believe that this ignores their practical experience which reveals that concentrations of families in the 50 percent of median income and below result in social and economic problems which increase management and operating costs and shorten the life of projects. While the concept is undoubtedly well-intentioned in its targetting of dollars to the very poor, it should be remembered that in 1974 the Department of Housing and Urban Development initiated a Community Development Act admonishing property owners, managers, and the FHA to avoid "undue concentrations" of very low-income tenants. Subsequent to the 1974 legislation, income limitations were increased from 50 percent of the area median to 80 percent of the area median in order to avoid such an unbalanced concentration. If the targetting is maintained at 50 percent or below median, the Federal government could incur significantly more cost per family, especially in operating and management costs.

SUPPORTIVE HOUSING

The concept paper's discussion of the proposed Housing for the Elderly Loan Fund includes a provision which would "allow project rents to be based on the actual, reasonable costs of building and operating elderly housing." The NATIONAL ASSOCIATION OF REALTORS® believes that this proposal is worthwhile and merits further consideration. Recent research shows that, in some areas, projects would be financially infeasible under current Section 202 program policies because of rent restrictions under HUD's FMR system. The reforms contemplated in the concept paper would encourage production by recognizing local development costs and eliminating the restrictive FMR system.

The NATIONAL ASSOCIATION OF REALTORS® also believes that the formation of a separate loan fund to support housing for the handicapped merits further attention. Creating two loan funds and associated programs will allow each program to meet its particular objectives and provide the best living environment for each target group. Because the needs are great and may be different for both physically and mentally handicapped, Congress should consider separate program funding to meet the needs of each of these potential occupants.

Homeless Assistance

Lastly, I would like to affirm that the NATIONAL ASSOCIATION OF REALTORS® recognizes and applauds the government's efforts to address the problems of the homeless. We are committed to finding appropriate ways to bring the homeless into the housing market and onto the ladder of homeownership so that they can live independent lives. However, as the District Court considers a lawsuit on behalf of the homeless to issue a preliminary injunction to halt the operations of the HUD FHA property disposition program, a solution must be found that reconciles the needs of the homeless with the imperative of maintaining the solvency and smooth operation of the FHA program.

The Association is concerned that the cessation of property disposition activities on the part of the FHA will severely impact the FHA fund and the entire constituency dependent upon the FHA's property disposition program. Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® hopes that a solution will be found that accommodates the concerns of the homeless while ensuring that the FHA program will not be threatened by the type of legal action which we are currently witnessing.

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CONCLUSION

Thank you again, Mr. Chairman, for the opportunity to participate in this worthwhile hearing. The NATIONAL ASSOCIATION OF REALTORS® looks forward to working with you and your staff in the future as you formulate a national housing policy and draft the National Affordable Housing Act. Now, I will be happy to answer any questions you may have.

STATEMENT OF WILLIAM H. LACY, PRESIDENT OF THE MORTGAGE
INSURANCE COMPANIES OF AMERICA ON THE LEGISLATIVE IMPLICATIONS
OF THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS STAFF
CONCEPT PAPERS FOR THE FRAMEWORK OF A
NATIONAL AFFORDABLE HOUSING ACT

September 14, 1988

Mr. Chairman and Members of this Subcommittee:

The Mortgage Insurance Companies of America (MICA)* appreciates the opportunity to comment on the development of a new housing policy in this series of Subcommittee hearings. The hearings held to date have identified at least three points of general consensus. One is that to simply throw funds at housing from Washington is a waste of taxpayers' money. A second is that for progress in housing to occur there must be a better partnership built between the efforts of the private sector and the efforts of local, state and Federal government sectors. A third is that there is a growing gulf between the "haves and have nots" and we must target government resources to those with special needs. MICA supports this consensus and a number of the solutions that have been suggested to remedy the housing problem.

The MICA membership knows that some of its views on changes for housing policy are different from the views of the mortgage bankers,

*MICA consists of the twelve domestic private mortgage insurance companies which represent the active firms that help loan originators and investors make funds available to homebuyers by protecting these institutions from a major portion of the risk of default. The current MICA officers are President, William Lacy of Mortgage Guaranty Insurance Corporation, Milwaukee, WI; Vice President, Gregory T. Barmore of General Electric Mortgage Insurance Companies, Raleigh, NC; Secretary, J. Edward Carlton, Jr., of Integon Mortgage Guaranty Corporation, Winston-Salem, NC; and Treasurer, James Miller of Commonwealth Mortgage Assurance Company, Philadelphia, PA. MICA also has member companies in Canada and Australia.

Realtors, and builders. Unlike these housing groups, MICA cannot support a policy of shifting more responsibility to the Federal government without examining both the cost to the American taxpayer, the cost to the private sector and the likelihood that the policy change will deliver benefits to households with the greatest shelter needs. Policy changes intended to increase government support for higher income households are socially unnecessary and economically harmful. We come to this conclusion based on extensive experience in the mortgage finance system; experience that is the result of putting over 8 1/2 million young, primarily first-time homebuyers into homes and paying over \$5 billion in claims (\$2 1/2 billion of which went to FELIC-insured institutions and over \$500 million to FHMA and FHLMC) on behalf of homeowners who lost their homes. Our experience is also based upon a financial need to police abusive practices of a few private firms that raise costs to consumers and the housing finance system as a whole.

The private mortgage insurance industry is in business to provide affordable low downpayment loans to American families and would not stay in this business if it did not believe it could expand its role and decrease dependence on the Federal government for mortgage insurance. We believe our commitment has been demonstrated. For example, during the most recent period of tight money in 1982-1984, private insurers insured almost 2 1/2 times as many homes as the FHA and despite the enormous claims paid, the industry has, without government assistance, been able to recapitalize itself. The industry has greater capacity to write business in 1988 than it had in 1981, at the start of the housing recession. However, despite the private industry's strong

performance, the Staff Concept Papers propose a major expansion of FHA that will increase dependence on the government and reduce private sector market share by half or more.

The debate on the use of government support in housing policy need not focus on the question of FHA's competitive impact on private insurers, nor on FHA's value to support the profits of mortgage originators, brokers or builders. The far more significant policy issue is determining how the government can best serve the needs of lower income households and those at the margin of homeownership. The government role needs to be retargeted.

The Government Role Has Been "Losing Ground"

Coming out of the Great Depression and World War II, the housing problems were in large part a result of not enough financial institutions interested in home loans and not enough money for homeowners. Excess conservatism in lending marked the day. Anytime there was a national housing problem, the answer turned to more government agencies and to more government guarantees that would help to increase the supply of housing funds. While these government programs were for the most part based on sound social policy, program execution became burdened by numerous Federal requirements and often was not flexible enough to accommodate local conditions or adapt to local government efforts. The central cause of their failure, however, resulted from a mismatch in the goals and objectives of the participants in the partnership between the government and the private entrepreneur. The entrepreneurs in many cases succeeded in redirecting the government's efforts away from the social needs.

In the past, there have been many government housing programs that were built upon the private-public partnership but few programs delivered results to lower income people in line with the costs of the government subsidies. Because efforts had to be made to restrain these costs to the government, Federal programs that rely upon public guarantees were expanded. Financial guarantees, including FHA did successfully attract private capital by substituting a future liability for a current budgetary cost. While it is often hard to determine the ultimate cost of government guarantees, we have recently found how costly these liabilities can be in the case of the FSLIC insurance fund. We are only beginning to recognize what FHA guarantees may cost the taxpayer.

In addition, new evidence suggests that the FHA program is not as successful at helping low and moderate income people purchase homes as Congress intended when the agency was created. In recent testimony before this Subcommittee, MICA presented hard evidence that fewer and fewer federally subsidized loans are going to lower income borrowers and that more and more of such support is going to higher income borrowers. In addition, we have shown data from an independent study by the consulting firm Temple, Barker and Sloane that FHA is not insuring any more loans to lower income people than private insurers. We hoped that the results of the very detailed study we commissioned would give every member of this Subcommittee reason to pause. A summary of the key findings of this study are found in the first appendix to this written statement.

Many studies have concluded that the roles of the public and private sector are out of balance. The longstanding government objective to help those with greatest need has been lost as policy was translated into market reality. The wrong people are getting Federal housing support. Is there any question after reading the report of the National Housing Task Force that the original charge established for the Department of Housing and Urban Development in the 1949 Housing Act to "provide decent safe and sanitary dwelling for families of lower income," has not been achieved? Senator Cranston noted in his framework speech reprinted in the Subcommittee staff proposals that "the new bill should reorganize HUD into a department that at long last is committed to providing supportive housing for those with special needs."

Members of my industry agree with Mr. Cranston on HUD's role and would even go further and urge that targeting special needs should be HUD's primary, perhaps only role. We do not believe Congress needs to be concerned with how HUD can meet the housing needs of middle income families and, except for those housing interest groups whose profits flow from FHA and Ginnie Mae, we believe this is the overwhelming consensus of those who have examined housing policy. Mr. James Rouse in presenting the findings of the National Housing Task Force told this Subcommittee in April: "For most people in the United States, particularly middle and upper middle income families, housing has been one of our country's most visible success stories. But for millions of [poorer] Americans, we have not only fallen short but are losing ground."

Because many government programs have been abused and twisted, this is the right time to redirect policy. The redirection should be to those with lower incomes. The Staff Concept Papers have intelligently recognized this and they have set forth ideas for creating major new government offices. However, before Congress creates new government programs for people with lower incomes, we believe the questions the staff should address is what is wrong with current programs and why have government programs failed? How can we evaluate the "vision that new legislation would intend to accomplish with national housing policy by the year 2000" if one does not know in 1988 why we missed the mark that Congress had established in 1949?

The Consequence of Overfinancing Markets

There are many consequences from overfinancing a market. First it can hurt people and second it can hurt the FHA program itself. For example, when FHA is used to increase home sales in weakening markets by artificially supporting prices, it provides a temporary benefit that is mostly absorbed by a few Realtors, mortgage bankers or builders who aggressively chase short run profits. There is ample evidence to show that when a government program designed to put people in housing is used without realistic consideration of the likelihood that these individuals will be able to retain the home, the result is a tremendous increase in foreclosures. The statistics on the increase in foreclosures since the early 1980's are so significant that if foreclosure numbers were

added back into the homeownership trends, it would reverse the decline in ownership that recent studies such as the Report of the National Housing Task Force have attempted to show.

Our analysis shows overbuilding and overlending are a primary cause of the frequency and severity of defaults. By making homeownership too easy and by putting too much money into markets at the wrong time, one can see the economic and social costs resulting from the FHA program. Over-building and over-lending not only harms homeowners but also destroys the economic well-being of whole communities for years. Examples are Denver, Houston, New Orleans and some Oklahoma communities.

Another consequence of overfinancing markets is that it causes FHA to lose ground in serving the needs of low income people. The incorrect argument that government guarantees involve no risk and make money for the government has helped a policy of FHA expansion win short term political favor. It has been very easy for Congress to support housing by agreeing to an increase in FHA limits especially in "high cost" areas since no immediate budgetary cost could be identified. However, the budgetary results of an expansive FHA policy are becoming clearer. Some results are the following:

- o The FHA Mutual Mortgage Insurance Fund (MMIF) recently reported a \$217 million loss for the first half of this fiscal year. FHA presently has well over 45,000 homes in inventory on which claims have been paid but no losses have

been reported. It is estimated that FHA will lose between \$23,000 and \$27,000 on each of these 45,000 homes once they are sold. Accounting for these losses as a private insurer, they would have to be reflected when the loans went into foreclosure, raising FHA actual current losses as high as \$1.0 billion.

- o The FHA has announced its financial difficulties. In a recent speech, Thomas T. Demery, the FHA Commissioner noted that so far this fiscal year the FHA "has taken a major beating". Mr. Demery is quoted as saying "'As we expand to new markets and remove restrictions . . . there is a real cost to FHA, to taxpayers, and to the Federal budget.'" Consequently, he said, some of the proposals to take 'the brakes off FHA are not so good.'"

- o The assertion that FHA "makes money" and does not cost the taxpayer anything is no longer true by any manner of measurement. When FHA produces net operating losses and its reserves drop dramatically, the taxpayer bears the cost of this reduction in FHA's financial solvency. If financial solvency falls too far, it could require annual direct budget outlays to protect the long term viability of the agency.

- o The argument that loans to higher income people are less risky and cross subsidize the loans made to lower income people is totally specious. The indisputable facts from both the government and private insurers show that it is

loans with higher downpayments that cross subsidize loans with lower downpayments. For example, for privately insured loans originated in 1984, defaults on loans to people earning more than \$40,000 and putting less than 10 percent down were about 2.5 times higher than loans to people earning less than \$40,000 but putting down more than 10 percent. It is contrary to public policy to have lower income people subsidize higher income people in housing or any other government supported program.

- o In a competitive market with free pricing of mortgage funds and free entry into building, lending and brokerage business, it is very difficult to protect against indiscriminate use of the government support. The fundamental purpose of FHA is to make sure the people whose loans it insures occupy properties that are well priced and financed. It is not FHA's job, as some may think from how it has been used, to have housing starts, housing sales, brokerage commissions and loan originations rise year after year.

Subcommittee Staff Concepts for FHA

Given the present state of the Federal budget, there are many members of the Congress who believe that any private-public partnership to meet housing needs should encourage maximum use of private initiative and risk taking. However, this is not the direction suggested by the Staff Concept Papers. In fact, it is exactly the opposite. MICA has testified to its strong support of

the FHA mortgage insurance program, the Government National Mortgage Association (GNMA) and the VA guaranty program. We believe they have vital roles to play in underserved markets and in meeting the needs of lower income households set forth in the Housing Task Force Report.

The Staff Concept Papers have recommended an expansion of FHA that will permit more affluent buyers to obtain government guarantees in areas where housing costs are high. The proposal sets FHA mortgage ceilings at 95 percent of the median sales price of homes within a designated area and sets as a national minimum ceiling at the current FHA maximum that has been applied to high cost areas. While this is said to be intended to particularly aid first time homebuyers, in a trading up markets, the house price index will rise simply because there are fewer first time buyers present.

MICA believes that, housing policy must determine which homebuyers need and deserve assistance, not which homes need to be sold. Some of the other housing groups testifying today are logically more concerned with having government assistance available to purchase more homes than having more needy families assisted. The median priced home, however, does not reveal anything about housing needs. The government should not guarantee a loan that by definition will allow someone to buy a home almost more expensive than half of all the homes in that area. This will clearly increase the volume of sales but will do nothing to increase sales of homes at the low end of the market. Permitting the government to assist people with incomes sufficient to purchase such a home would, in

many high cost markets, mean the eligible homebuyers are well into the upper income brackets. This on its face is an extreme and wrongful expansion of the government role.

To better understand just how extreme this proposal is, one could relate it to median home size and other factors. The size of homes, the type of amenities that have been added to homes and the land costs in areas with desirable locations have greatly increased prices. Would it be conceptually appropriate for the government to determine its eligibility in an area known for larger homes or homes with costly amenities such as a luxury equipped kitchen, a hot tub or possibly an ocean view? A proposal for new FHA loan limits that is truly targeted to assist first time homebuyers, should ask what is an appropriate starter home. Is it 1,400 square feet and is the cost of the land below the average for the market? Does its per square foot construction cost represent utility or luxury in that market? Certainly there should be some common denominator of need that transcends all markets to indicate whether the government assistance will benefit the overall social welfare in that market or just another expansion of a market.

Looking ahead, we are convinced that upwardly mobile Americans can be housed well without expanding the Federal government's role. Starter homes will be better starter homes than those previously occupied by their parents, but they will not be the median-priced homes occupied by their parents today. Homeownership will be a cost and not a vehicle for speculative capital gains. Rental housing costs will be competitive and the great mortgage finance infrastructure - - Realtors, mortgage bankers, and thrifts - - given appropriate incentives, can be encouraged to redirect their efforts

away from the high dollar loan to financing and housing moderate and low income households. We urge you to study the incentives currently at work in the private mortgage finance system and strive to adjust them in ways that will encourage private lenders and investors to direct their efforts toward underserved markets at the lower income ranges. The second appendix to this statement outlines MICA's suggestions to target FHA using the incentives working in today's market.

I also want to comment briefly on two other staff recommendations regarding FHA. First, MICA opposes changes to the interest rate caps on the FHA ARM because offering more risky ARMs to families with lower incomes and little net worth will in fact result in an increase in mortgage defaults. Families who cannot afford the payments on a fixed rate mortgage can hardly be expected to afford tomorrow's payments on ARMs. Our goal must be to put more families in homes of their own - - and keep them there, not sell houses or generate commissions.

Second, MICA urges you not to lower FHA's downpayment requirements for higher income people because this will only increase FHA's risk exposure. Lower downpayments will increase losses exponentially, based on our experience. A recent study by FHA shows that 20 to 30 percent of the mortgages insured under FHA's 203(b) program in the early 1980's with less than a five percent downpayment have or will result in foreclosures. (The desired standard is 5 per 100.) This proposal, therefore, will reduce FHA resources available to back smaller loans and reduce the actuarial soundness of the FHA program.

Summing up, we believe that Congress needs to rethink the proposals in the Staff Concept Papers and bring them more in line with the overall intent of this effort to develop a new housing policy. FHA needs to be financially sound and properly targeted to those at the margin of homeownership.

APPENDIX I

Comparison of the Markets Served by Private Insurers and FHA

The Mortgage Insurance Companies of America (MICA) commissioned Temple, Barker and Sloane (TBS) to do an independent analysis of the markets served by FHA and private insurers. The purpose of the study was to provide objective analysis of the mortgage insurance market. The analysis was done on a nationwide basis and in twelve metropolitan statistical areas (MSAs).

TBS did a statistical analysis based on loan origination data of both FHA and MICA, covering the most recent five-year period (1982-1986). The analysis compared the loans insured by FHA and those insured by private insurers in areas such as borrower income, loans within FHA limits, downpayments, and loans for investment and refinancing purposes.

TBS centered its comparisons on borrower income as a percentage of median income and borrower income. Throughout the study, 120 percent and 140 percent of median household income are used to compare the two programs. The benchmarks are used because they illustrate the extent to which FHA is serving higher income people. Six out of ten households have incomes less than 120 percent of the median and two-thirds of all households have incomes less than 140 percent of the median. The study also compares the mortgage insurance markets by borrowers with incomes over \$40,000 a year and over \$60,000 a year. Approximately 140 percent of the U.S. median household income is \$40,000 and \$60,000 exceeds 200 percent of the U.S. median income.

TBS also did a series of interviews in selected MSAs and a nationwide mail survey. The purpose here was to identify lenders, borrowers and real estate agents' perceptions of how one type of insurance program is chosen over another.

The key conclusions were as follows:

- " 60 percent of FHA originations were to borrowers earning over 120 percent of the national median income, while 44 percent have been to borrowers earning over 140 percent of the national median income;
- " 35 percent of FHA originations were to borrowers earning over \$40,000, while 9 percent have been to borrowers earning over \$60,000;
- " Nonhomebuyer borrowers (refinances and investors) account for 20 percent FHA originations. Thirteen percent were refinances, and 7 percent were investor loans. These nonhomebuyer borrowers also have significantly higher incomes than homebuyers;
- " Many higher-income homebuyers use FHA financing for minimum downpayment loans. Since 1982, 21 percent of FHA originations to owner-occupant homebuyers were to borrowers earning over \$40,000 and putting down less than 10 percent. In 1986, 27 percent of FHA owner-occupant homebuyers earned over \$40,000 and put down less than 10 percent;

APPENDIX I (cont'd)

- * FHA experience suggests that claim rates are determined more by the amount of downpayment than by borrower income. Borrowers with downpayments under 10 percent show claim rates five times that of other borrowers;
- * On a national level and in most MSA markets, FHA and private mortgage insurers are serving all income segments;
- * Key market participants - lenders, borrowers, and sales agents - all benefit from larger loans;
- * The cost of financing is no longer substantially lower for government programs. Recent yields of mortgage-backed securities show negligible spreads, and lenders report that borrowers are no longer selecting FHA financing based on cost savings.

The study dispels a number of the common perceptions about FHA and the private mortgage insurance industry. For example, it is generally believed that FHA primarily serves lower income borrowers. The facts show, however, that 60 percent of FHA loans go to home borrowers with incomes over 120 percent of the national median income. Another common perception is that FHA helps people buy homes who would not be served by the private sector. However, the TBS study indicates that when examining loans within FHA loan limits, the FHA and the private sector are basically serving the same market.

It also generally is believed that FHA's low downpayment helps primarily lower-income borrowers. The facts show, however, that in 1986, of all FHA loans with less than a 10 percent downpayment, 42 percent went to borrowers with incomes over \$40,000 while only 4 percent went to borrowers with incomes less than \$20,000. In addition a common perception is that FHA's overriding purpose is to help people buy their own home. In 1986, one-third of FHA's volume was used to finance nonhomebuyers (refinancings or investor houses).

MICA welcomes interested parties to share in its continued analysis of these important facts arising from the study. For further information please call Steven P. Doehler or Suzanne C. Hutchinson.

APPENDIX II

MICA RECOMMENDATIONS FOR REDIRECTING FHA AND GNMA

The mortgage insurance industry has considered many alternatives for directing FHA and GNMA in light of the system in which it functions and its public policy objectives. We also have looked at ways it can more appropriately serve higher income borrowers. We believe that adjustments must be made in the FHA/GNMA programs to increase the attractiveness of loans to targeted markets and to enable loans to nontargeted markets to operate on a market basis. MICA, therefore, recommends that FHA/GNMA loans be divided into two categories - - targeted and nontargeted - - and that loans to nonhomebuyers (refinances and investors loans) be prohibited.

MICA would define targeted FHA/GNMA loans to mean loans to borrowers with incomes below a certain percentage of the median family income. Congress would set the percentage commensurate with prevailing public policy and would use median income of a county or MSA so that the system would be able to accommodate regional differences. The system also would recognize economically distressed areas, where both borrowers and the market need a more visible government presence to support the market. In such areas, the percentage of median family income could be raised slightly to include more people in the targeted category. Congress also would choose that higher limit. Targeted loans would have the following characteristics:

- o These loans would retain all the current benefits of the FHA program. This would include 100 percent insurance coverage, a fixed premium for all loans, a less than five percent downpayment, the ability to finance closing costs, and the ability to assume the loan.
- o Conventional loans that fell within the definition of targeted loan would be eligible for inclusion in GNMA securities if they had insurance coverage acceptable to GNMA. There is ample evidence to show that GNMA securities can leverage the effectiveness of the government's credit enhancement function. If private insurance coverage were used on primary risk of default in lieu of FHA it would reduce the actual liability and potential cost to the Treasury and it would provide more mortgage credit for low income borrowers. Since the GNMA program is taxable it is far more cost effective for the Treasury than programs such as mortgage revenue bonds. As a result the lender after evaluating borrower needs, would be completely free to choose which insurance program, private or FHA, that best met lender and borrower needs.
- o GNMA guaranty fees for targeted loans would be eliminated allowing the lender an increase in servicing income of six basis points (i.e. 0.44 percent to 0.50 percent). Making these loans more profitable for the lender to originate would encourage them to make more funds available to lower-income people.
- o The present loan limit of \$101,250 for high cost areas is too high. It should be scaled down over time to be more consistent with the overall redirection of FHA and GNMA.

APPENDIX II (cont'd)

- o The following concept would be implemented to control the guaranty authority of both FHA 203(b) and GNMA: The guaranty authorities of FHA 203(b) and GNMA would be a minimum of \$X billion; however, the limit could be adjusted upward in a current fiscal year to an amount of two times the loan amounts produced in the targeted category in the preceding fiscal year, if such amount exceeded X.

Congress would provide a number for the guaranty authority, in keeping with overall housing policy goals. This formula for the total guaranty authority will provide an incentive to the users to increase the volume of targeted loans.

Nontargeted loans would be defined to include all loans provided to people whose income is above the amounts described in the targeted category. In addition, MICA believes that Congress should set an overall maximum income amount beyond which the individual is not eligible for an FHA insured loan. Loans to individuals in the nontargeted category would have to be provided on a market basis and would be more economically and actuarially sound to reduce FHA's contingent liability. Targeted loans would have the following characteristics:

- o The maximum coverage FHA could provide on nontargeted loans would be 25 percent. The balance would be coinsured by the lenders to insure sound underwriting.
- o The loan amount could not exceed 95 percent of the property value.
- o Closing cost would not be eligible for financing.
- o Loans would be due-on-sale (i.e. could not be assumed).
- o Lower debt-to-income ratios would be required for nontargeted loans than those required for targeted loans.
- o The FHA underwriting or premium on nontargeted loans would be economically sound.
- o The GNMA guarantee fee for nontargeted FHA loans would be increased to 0.12 percent to cover the increased surety exposure due to the residual risk retained by the lender.
- o The present loan limit of \$101,250 in high cost areas is too high. It should be scaled down over time to be more consistent with the overall redirection of FHA.

MICA also believes that FHA should only insure loans to purchase homes and only those type of loans should be permitted in GNMA securities. The FHA/GNMA programs were created to assist lower-income people purchase homes. Over a recent five year period, however, 20 percent of FHA loans went to nonhomebuyers -- refinances and investors. In 1986, this number jumped to 30 percent. MICA believes that one way to expand homeownership is to make FHA available only to those lower-income people who wish to purchase a home. FHA, therefore, should be prohibited from refinancing existing loans or providing loans to investors.

Senator CRANSTON. Mr. Stuard.

**STATEMENT OF DALE STUARD, PRESIDENT, NATIONAL
ASSOCIATION OF HOME BUILDERS**

Mr. STUARD. Thank you. Mr. Chairman, Senator D'Amato, my name is Dale Stuard. I'm a builder from Newport Beach, CA and currently serve as president of the 155,000 member National Association of Home Builders.

I thank you for this opportunity to testify today and commend you and your staff for the time and the effort that has been put into the National Affordable Housing Act. I also want to acknowledge the efforts of Senator Sasser and Senator Heinz in developing the Home Ownership Act of 1988; and the work of Senator Dodd and Senator D'Amato on the Housing Grant Action Program Act of 1988.

Enactment of housing policy for the future that will address this Nation's current housing affordability crisis is crucial in light of the following.

The everincreasing reduction in the rate of homeownership, particularly among the young and the first-time home buyers; the increasing proportion of rent as a percentage of income, particularly among the single-parent households; and the plunging commitment on the part of the Federal Government as a result of tax reform and HUD budget cuts.

NAHB believes that to resolve the affordable housing crisis, the following principles must be followed:

NAHB RECOMMENDATIONS

One, infrastructure needs need to be addressed.

Two, tax policy must be examined. At the very minimum, the Government's commitment to the mortgage interest reduction must be maintained and the mortgage revenue bond program must be extended, and the low-income housing tax credits improved.

Three, the focus of housing policy should be private-sector oriented.

Four, the administration of the housing programs should be secondary to the goal of providing shelter.

Five, the Federal Government must continue and expand its role in facilitating the flow of private credit to housing by providing credit guarantees and sponsoring secondary market entities.

Let me turn now to some of the specific points in the National Affordable Housing Act.

NAHB is pleased with the proposals to allow funds in IRA and 401(k) retirement accounts to be invested in home purchases. This would help young families to save for downpayments on first homes. However, we do urge that the proposed purchase price limitation be eliminated.

In addition, NAHB believes that the proposed adjustment of the maximum FHA mortgage amount in high-cost areas will help provide low downpayment financing to borrowers in areas where it is most needed.

Regarding the rental housing portion of the act, we agree that the potential loss of the existing affordable housing stock is a compelling problem and must be addressed.

~~We~~ We urge that incentives be provided to encourage present owners to maintain existing low-income units rather than to encourage transfer of ownership.

With respect to expanding the supply of affordable housing, we support the approach taken in the HOP program. The involvement of State and local governments will focus and leverage the available Federal resources.

Regarding special needs, we believe that enactment of the Fair Housing Act provided a balanced approach in meeting the goal of accessibility for all in multifamily housing. We believe that this accessibility standard makes much more sense than the arbitrary set-aside requirement. Our concern with the set-aside units is that they go unused in the majority of cases.

We also urge continued support for rural housing programs, which have met the special needs of over 2 million low-income families since 1949.

As a final point, Mr. Chairman, I would like to note our belief that housing policy must address infrastructure problems if we are to deal successfully with the affordability crisis. Ever increasing impact fees are a result of this critical problem.

Mr. Chairman, this concludes my oral statement. I would be pleased to answer any questions this subcommittee may have concerning our Nation's housing policy.

Senator CRANSTON. Thank you very, very much, Dale.

[The complete prepared statement of Mr. Stuard follows:]

STATEMENT OF THE
NATIONAL ASSOCIATION OF HOME BUILDERS
before the
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
of the
UNITED STATES SENATE
on
NATIONAL AFFORDABLE HOUSING ACT
SEPTEMBER 14, 1988

Chairman Cranston, Senator D'Amato, Members of the Housing
Subcommittee:

My name is Dale Stuard and I am a homebuilder from Newport
Beach, California. On behalf of the 155,000 member firms of the
National Association of Home Builders (NAHB), of which I serve as
president, I thank you for the opportunity to appear before this
Subcommittee, and I commend you for holding these hearings to
discuss the National Affordable Housing Act. Mr. Chairman, we
believe the idea of a National Affordable Housing Act is an idea
whose time has come. We recognize the vast challenge that you
have accepted in pursuing this idea along with the time, effort
and energy that has been, and will be, expended in meeting this
effort. We agree with this Subcommittee on the need for broad-
sweeping bipartisan support for a renewed national housing

- 2 -

policy. We also wish to acknowledge our sincere appreciation for
the professionalism and cooperation of the staff of this
Subcommittee and the personal staff of its Members as we address
this challenge.

We welcome the energies and proposals by others on the
Subcommittee concerning the future of this nation's housing
policy as well. We think that both The Housing Grant Action Act
of 1988, introduced by Senators' Dodd (D-CT) and D'Amato (R-
NY), S.2711, and The Homeownership Assistance Act of 1988,
introduced by Senators' Sasser (D-TN) and Heinz (R-PA), S.2379,
deserve favorable consideration by the Subcommittee.

Mr. Chairman, as we look to future policy we should briefly
examine the past and present. Housing starts have been strong
over the past six years, with a strong economy the key. However,
the drop in the general strength of the economy combined with
several stark realities, lead us to believe there is an
affordable housing crisis.

- o Homeownership rates in the United States have fallen
from a peak of 65.6 percent in 1980 to 64 percent in
1987. Had the 1980 rate been maintained, two million
additional households would own their homes today.
This decline has been most pronounced among young
households.
- o The number of homeless are growing and the crisis of
homelessness is more frequently striking working men
and women and families with children.

- o An estimated 16 million renter households are now paying more than 30 percent of their income for rent, with many single-parent families paying as high as 50 to 60 percent of their incomes for rent.
- o Tax incentives to provide additional needed multifamily housing were literally wiped out by the Tax Reform Act of 1986. That legislation has been contributing to the low level of multifamily starts over the past several years.
- o Government's commitment to assist housing has taken a precipitous plunge over the last decade with HUD budget authority dropping more than 70 percent.

We firmly believe that in enacting a housing law for the future to reverse this downward slide, the following principles should be followed:

First, programs must be clear and simple. The administrative complexities of implementing the programs should not distract from the program content nor confuse the public. If debate shifts from programs to their administration, victory will be lost.

Second, the focus has to be private-sector oriented. New ideas must mobilize the resources and imagination of the private sector. Unfortunately, the moratorium on prepayment of privately-owned, publicly-assisted projects, while it accomplished the goal of allowing for more objective debate over long-term solutions, has had a very chilling effect on many who desire to provide affordable rental housing for low- and

moderate-income individuals in the future. The capacity of the private marketplace must be tapped in order to achieve a widespread, significant impact on the problem.

Third, providing and maintaining the infrastructure needed for safe and quality living conditions must be considered as part and parcel of meeting housing needs. Affordable housing cannot be provided if the infrastructure is not in place or if its cost is imposed "up-front" on new housing.

Fourth, the tax treatment of all housing, both owned and rental, single-family and multi-family is crucial. The homeowner's mortgage interest deduction has long been the cornerstone of American housing policy. Any serious restriction on it would have pervasive effects on the quality of America's housing and America's attitudes toward homeownership. Since rents required to support support debt would not be affordable by low- and moderate-income housing projects, incentives for rental development will ultimately have to be required to keep rental housing affordable. Fifth, the long-term health of the economy is clearly vital. The demand for dollars to finance the federal deficit continues to plague the credit markets in ways which directly impact on housing affordability.

Finally, Congress should exercise caution in any restructuring of the Executive branch. While we welcome attention toward strengthening HUD's role, reorganizations are time consuming and they deflect attention away from program implementation.

With the above principles in mind, NAHB believes that the goals of new national housing legislation for the next decade should be to:

- o Increase homeownership opportunities for both moderate-income and lower-income households;
- o Overcome restraints imposed by regulation, growth restrictions and a general failure in recent decades to provide adequate infrastructure to support continued development of affordable housing;
- o Expand the supply of affordable rental housing for low- and moderate-income families;
- o Preserve and enhance the existing stock of federally-owned and assisted rental housing, while honoring previous commitments to private owners of assisted housing; and
- o Create programs targeted to the special needs of the elderly, the handicapped, those in rural areas and the ever increasing number of homeless and near homeless.

In keeping with the broad general outline of the National Affordable Housing Act, we will focus our testimony on homeownership first, followed by the issues of rental housing and special needs housing. We address infrastructure and other areas we believe ought to be addressed in a comprehensive package separately, and then conclude with an outline of various tax issues of great importance to the development and preservation of housing.

HOMEOWNERSHIP

The homeownership rate for young households has fallen sharply over the past decade. This decline reflects several factors, including weakness in incomes for people born at the peak of the baby boom, high real interest rates, increased numbers of single person households, and tighter mortgage underwriting standards. The difficulty young households have in becoming homeowners is not only a source of frustration for these young people, but also a loss to society as a whole, because homeownership is fundamental to neighborhood stability, community participation, capital accumulation and good citizenship. Indeed, it would be appropriate that the facilitation and encouragement of homeownership be explicitly recognized as a national housing goal in any housing legislation produced by this Subcommittee.

The concept papers and proposed legislation include a number of proposals to provide a boost to those needing to overcome the hurdles in the way of first-time ownership. These hurdles include the difficulty of accumulating a downpayment, high real interest rates, and restrictions on the use of FHA insurance. In general, the proposals not only are well designed to assist the households who require assistance effectively, but also to operate at low cost with minimal complexity.

The proposal to allow an individual's funds in an IRA or 401(k) retirement account to be invested in a home purchase not only addresses the difficulty that first time buyers have in

accumulating downpayments, but also recognizes the key role that homeownership plays in building wealth for retirement.

NAHB has confirmed that difficulty in accumulating a downpayment is the principal constraint facing first time buyers. Even homebuyers with incomes sufficient to afford the monthly payments often have difficulty in accumulating the needed cash "up front." Now, stricter mortgage underwriting standards have placed even greater stress on the need for a mechanism to facilitate downpayment savings. Tax-favored or subsidized downpayment saving plans have been successfully implemented in a number of countries, including Australia, Canada, France, Britain and Germany. These plans have enabled these countries to raise their homeownership rates while the U.S. rate has been falling.

The specific proposal for investment of retirement savings in home purchases includes a restriction that retirement funds be invested in a home with a sales price of no more than 110% of the area median. We strongly urge that this restriction be eliminated. Households contributing funds over a period of years must be confident that these funds can be applied to the home they choose. Because of changing needs, relocation to other geographic areas, or deficiencies in the house price data, they may not find an acceptable home within the price limit. With this restriction, many young households would not be willing to risk contributing funds which might become in effect, - unavailable.

Elimination of the house price limit would not mean that higher income households would be the primary beneficiaries of

the plan. Existing restrictions on deductible contributions to IRAs, together with the proposed restriction on the maximum investment of retirement funds in home purchases, provide a limit to the use of the benefit. Moreover, higher income individuals would find it more advantageous to invest tax-sheltered retirement funds in normally taxable financial instruments and to use other, unsheltered, funds for downpayments to purchase a home.

As described, the investment in home purchases would be restricted to IRA and 401(k) retirement plans. Keogh plans should also be included in the proposal.

The timely extension of mortgage revenue bond authority should be a top priority. The imminent sunset of MRB authority will occur during a time of rising mortgage rates, when this uniquely effective means of assisting first-time buyers will be most needed.

The proposed adjustment of the maximum FHA mortgage amount in high cost areas will help provide low downpayment financing to borrowers in areas where it is urgently needed--those parts of the country where home prices are especially high. Currently, FHA-insured mortgages are not a viable financing option in high-cost areas.

The national FHA loan ceiling of \$67,500 has remained unchanged since 1979, even though the national median price for new homes has increased by more than two-thirds over that period. This low ceiling on loans in non-high-cost areas discourages construction of new, good quality housing in areas that are

economically depressed and where the existing housing stock is often substandard. In addition to adjusting the loan limit in high-cost areas, new legislation should also raise the national limit.

The proposed revision in the minimum downpayment for FHA-insured loans will provide a modest but important reduction in the downpayment burden without adding significant risk to the FHA insurance fund.

The proposed relaxation of restrictions on the types of adjustable rate mortgages (ARMs) eligible for FHA insurance will increase the financing options available to homebuyers and more closely conform to the standards established for conventional mortgages. ARM loans have been shown to be a valuable option for homebuyers and a source of increased cyclical stability for the homebuilding industry. We would urge the Subcommittee to seek a 6 percent overall cap on the mortgage interest, however, instead of a 5 percent cap, in order to match the development of this type of interest in the secondary market.

RENTAL HOUSING

Mr. Chairman, we agree that the potential loss of the existing affordable housing stock is a compelling problem that needs to be addressed. When legislation is introduced covering this issue, we strongly urge that incentives be included for owners to maintain voluntarily the low-income nature of this housing. We also believe these incentives should not be biased toward transfer of ownership. Rather, incentives should be

directed towards simply maintaining these properties as affordable to low- and moderate-income households in the most cost effective way.

With respect to the specific proposal in the staff papers for HUD to finance mediation services, we urge that it be made clear that use of such services requires the approval of both owners and tenants and that mediators need not be non-profit entities.

As important as it is to preserve the progress derived from past housing supply efforts, it is equally important to extend that progress. The National Housing Task Force recognized this and recommended that a new initiative be begun. This initiative will be designed both to expand the commitment of state and local governments and to harness the expertise and capacity of the private sector to generate a significant level of production to meet the needs of low- and moderate-income families, from a relatively modest amount of federal funds.

The fresh approach that the proposed HOME Corporation offers, building on past successes of other government-sponsored entities, but through a newly formed and distinct entity of its own, is worthy of further consideration. By drawing on the proven structure and operations of other government created corporations, but by creating a separate corporation with its own identity and purpose, already defined, Congress, states and local governments will have a single source within the HUD bureaucracy in which to turn as we work toward the shared goal of providing affordable housing for those in need.

Clearly, administering the proposed Housing Opportunity Partnership (HOP) program would be the chief activity of the Corporation. While the HOP proposal needs further development, it appears to have significant potential for drawing together the interests and resources of the state, local, and private sectors for the provision of additional affordable rental housing and expanding the access of low- and moderate-income households to homeownership. The HOP program would be a fresh, flexible and efficient means of extending the partnership between the private sector and the federal government which has produced so much affordable housing over the last twenty years.

We appreciate that the allocation mechanism for the HOP fund is designed specifically to avoid spreading too thinly the limited resources available. Tangible progress on housing programs in specific areas is more important than making superficial efforts everywhere.

The other major function proposed for the HOME Corporation consists of the facilitation of capital flow into mortgages for affordable rental housing. It is in this area that the federal government is uniquely qualified and where significant benefit can be provided at little or no cost to the federal budget.

Where state and local governments provide mortgages for affordable rental housing based on secondary market financing, they face substantial overhead costs and risk premiums. Moreover, many state and local governments lack the technical expertise or volume of activity necessary to create and sell mortgage pools. The federal government has the necessary

experience and expertise to assist state and local governments and is the only entity able to provide a fully-credible guarantee.

The credit guarantee should be made available for mortgage-backed tax-exempt industrial development bonds that meet the low-income requirements specified by the Tax Reform Act of 1986 as well as for taxable mortgage-backed securities issued by state and local governments. In order to provide such credit enhancement for tax-exempt securities, current law will have to be modified.

Turning to the area of rental credits, we commend you for taking the logical, but not necessarily easy, step in the debate between whether Section 8 Existing Certificates or Vouchers are what is needed for non project based assistance. Both may be desirable, each in different situations. Consequently, the staff draft intends to move the debate from one of whether four quarters is a better dollar or a "greenback" is a better dollar. We welcome the opportunity to focus on combining the most desirable features of each, while providing states and localities with some flexibility in their use.

The concept papers propose that all of the rental assistance payments, to be known as "rental credits", be for a term of five years, whether they are to be used as voucher-type non-project-based assistance or are to be used as project-based subsidies to renew expiring section 8 contracts or to provide incentives for new construction or rehabilitation. If the federal commitment on project-based assistance is for only five years, lenders and

investors will be unwilling to make long-term financial commitments. In the case of expiring federal or private commitments to the existing assisted stock, a short-term commitment of federal assistance will not be adequate to achieve the objective of extending "to the maximum extent practicable the low-income affordability of housing that has been produced with federal assistance". The expiring Section 8 Existing contracts are likely to be a greater problem than the prepayment issue. In order for project-based rental credits to effectively stimulate retention and expansion of the supply of low-income affordable rental housing, longer-term commitments must be available.

We confess we do not have the answer on how to balance the budgetary impact with the need for a longer-term assistance contract to achieve the needed result, but we believe a solution must be found if we are to achieve the additional housing that is, and will continue to be, needed to house low- and moderate-income families over the decade ahead.

SPECIAL NEEDS HOUSING

We also offer our support for a more integrated view of housing requirements for those with special needs: the elderly, those with various handicaps, the homeless, those in rural areas, and families living on welfare but who desire to be more self-sufficient.

As you are aware, Mr. Chairman, NAHB worked closely with various organizations representing the handicapped in developing legislation to provide accessibility for all in multifamily

housing. Through the enactment of the Fair Housing Amendments Act of 1988, of which we acknowledge your co-sponsorship and support, as well as that of others on this Subcommittee, we believe we have achieved a balanced approach in meeting that goal.

Under the provisions of the Fair Housing Act of 1988, all multifamily units, whether government insured or assisted, as well as those conventionally financed, in new buildings with elevators and all ground floor units in new buildings without elevators, otherwise known as "walk-ups," with an exclusion for buildings of fewer than four units, would be required to meet certain minimum design and construction provisions in an effort to provide housing accessible to all. This provision will become effective early in 1991, 30 months from the date of enactment.

The provision would require:

- o The public use and common use portions of such dwellings to be readily accessible to and usable by handicapped persons.
- o All doors into and within all premises within such dwellings to be sufficiently wide to allow passage by handicapped persons in wheelchairs.
- o All premises within such dwellings to contain the following features of adaptive design:
 - 1) An accessible route into and through the dwelling;
 - 2) Light switches, electrical outlets, thermostats and other environmental controls in accessible locations;

- 3) Reinforcements in bathroom walls to allow later installation of grab bars;
- 4) Usable kitchens and bathrooms in the sense that an individual in a wheel chair can maneuver about the space

Committee Report language clarifies that the usable kitchen and bathroom space does not require a turning radius for persons in wheelchairs and states that adaptable cabinetry, countertops or special plumbing are not necessary to comply with the requirements of this Act.

Owners will be required to allow reasonable modification to existing units by handicapped persons at the occupant's expense.

This approach is favored far more than the establishment of various set-asides which results in unequal treatment by denying those with disabilities from access to a majority of multifamily units. Set asides of adaptable units create a very real and costly group of units which those without disabilities have no desire to occupy.

For example, in California, set-aside units required under a state law, which goes beyond the requirements of the federal law, remain vacant in buildings with no vacancies in non set-aside units. We would urge that the Subcommittee defer from establishing set-aside units for the handicapped.

Mr. Chairman, rural housing programs as administered by the Farmers Home Administration (FmHA) have been successful in meeting the housing needs of low-income families and the elderly residing in small rural communities across the United States.

These programs serve the special needs of rural people who are unable to obtain credit from other sources and whose incomes are often below the poverty line.

These programs have been the only source of mortgage credit in many of our rural areas with many rural counties without a federally chartered savings and loan. The demand for rural housing is great with over 2 million substandard units of housing in the FmHA service area. The Congressional Research Service (CRS) has estimated a rural housing shortage of 375,000 units by 1990.

Congress has designed rural housing programs to serve those most in need. Forty percent of the Section 502 single-family homeownership program goes to those making 50 percent or less of area median income. About 70 percent of the tenants in the Section 515 multifamily rental projects have incomes below \$6,000 a year. Section 515 is supplemented by a rental assistance program to further serve low-income families and the elderly who would not otherwise be able to afford housing.

For these reasons, we urge the Subcommittee to continue its support for rural housing programs at current levels which have met the special needs of over two million low-income rural families since 1949.

With respect to other special needs housing, we intend to examine these proposals more closely as we develop policy in those areas. We will, of course, share these views with the Subcommittee at that time.

INFRASTRUCTURE AND OTHER HOUSING RELATED ISSUES

Mr. Chairman, we continue to believe that comprehensive housing policy must address the infrastructure issue if we are to meet successfully the overall challenge before us. Ever increasing impact fees tied to the development of both single family and multifamily housing is tantamount to total abandonment of responsibility by elected officials at all levels. To allow these fees to expand and increase unchecked is no different from ignoring the impact of the national debt, and the interest on it, to our national economy.

I wish I could be more kind. However, part of the equation leading to affordable housing continues unchecked and results in a disproportionate burden on those who occupy new housing, whether owners of such housing or renters. The ultimate cost of such fees along with the carrying costs of these fees are borne by the occupant.

NAHB respectfully urges the Subcommittee to include in the "findings" of the National Affordable Housing Act, that Congress encourages states and localities to expand on the ways to meet infrastructure needs beyond placing an inordinate burden on homeowners and renters. When fees, as high as \$20,000, are added to new development in parts of California, the time has come to find other approaches such as an Infrastructure Bank to provide secondary market resources to meet this need.

We note that this issue is not addressed in the draft concept papers. We would hope the Subcommittee would give this

area further consideration as the legislation is drafted and further debated.

Finally, we also would like to acknowledge the efforts of others on the Subcommittee who have shared their interest with us in developing needed housing legislation and have introduced various proposals which we believe will enhance the housing delivery system.

Senators Sasser (D-TN) and Heinz (R-PA) have introduced S.2379, The Homeownership Act of 1988, which in many respects parallels the homeownership provisions of the Subcommittee staff concept paper. NAHB has endorsed S.2379, and we are pleased that several of its provisions have been included in the concept papers, namely the indexed mortgage limits and the expanded FHA-ARM. As comprehensive authorization legislation advances through the legislative process, we would support the inclusion of the two demonstration programs contained in the Sasser-Heinz bills as well, namely the Accumulating Mortgage Downpayment Demonstration program and the Downpayment Second Mortgage Demonstration program.

We also wish to acknowledge the efforts of Senators Dodd (D-CT) and D'Amato (R-NY) in developing S.2711, The Housing Grant Action Program Act of 1988. In particular, we offer our support for the block grant provisions and the Tax and Housing Policy Coordination section of the bill.

This latter provision authorizes a tax and housing policy coordinating council to consist of the Secretary of the Treasury, the Secretary of Housing and Urban Development, the Secretary of

Agriculture and the President's Chief Domestic Policy Advisor. The purpose of the Council would be to advise the President regarding the consistency between existing and proposed tax policy and housing policy and to comment on tax legislation proposed by Congress and the Administration.

We strongly believe that a formal mechanism for coordinating these policies is not only highly desirable, but also necessary to achieve the balance that is urgently needed to ensure a favorable climate for the development and operation of badly needed housing affordable by low- and moderate-income families.

One of the problems we have with the Dodd-D'Amato bill however, focuses on the applicability of Davis Bacon prevailing wages. Section 110 the Housing and Development Act of 1974 requiring the applicability of the Davis-Bacon prevailing wage statute, which currently applies to both the Community Development Block Grant and the Urban Development Action Grant programs, is burdensome to those who develop and build under these grant projects because Davis Bacon creates administrative problems, raises construction costs and adds to the housing affordability problem.

TAX ISSUES

No discussion of how to revise the nation's housing laws would be complete without consideration of federal tax laws. For many years, tax laws were the cornerstone of federal housing policy. Even after the Tax Reform Act of 1986, the tax law continues to play an important role in housing. However,

notwithstanding this, there has been a lack of coordination between housing policy on the one hand and tax policy on the other. A revitalization of the nation's housing laws, to be meaningful, will require close coordination between the Housing Subcommittee and the tax-writing committees of Congress.

We are pleased with the tax provisions contained in the National Affordable Housing Act. Allowing IRA investments in housing will go far toward alleviating the housing affordability problem. Furthermore, it is essential that the mortgage revenue bond program be extended beyond its December 31, 1988 sunset date. Moreover, the drafters of the Act recognize the need for changes to the low-income housing tax credit. However, more needs to be done.

In the interest of reducing individual income tax rates, in a revenue neutral fashion, the Tax Reform Act of 1986 was devastating for multifamily housing.

Since 1981, the tax incentives that were designed to encourage the production of decent, affordable rental housing have been cut back sharply or eliminated. Prior to enactment of the Tax Reform Act of 1986, investment in low-income housing was uniquely favored. Depreciation was allowed over a 15-year period on an accelerated basis. Expensing was allowed for construction period interest and taxes. Low-income housing rehabilitation expenses could be amortized over a short period. An exclusion was provided for capital gains. There was no limitation on so-called passive activity losses.

The Tax Reform Act of 1986 substantially reduced the attraction of investment in multifamily housing, in general, and low-income housing, in particular, by among other things:

- o Substantially restricting the deduction of losses from "passive" activities;
- o Limiting deductions for investment interest;
- o Repealing rapid amortization of low-income housing rehabilitation expenses;
- o Substantially lengthening allowable depreciation lives (27-1/2 years/straight-line for residential rental property);
- o Substantially restricting the issuance of multifamily industrial development bonds; and
- o Substantially strengthening the minimum tax provisions.

A significant provision in the Tax Reform Act of 1986 was the tax credit for investment in low-income housing. This provision indicated, at least, Congressional recognition that the Tax Code is a tool for providing low-income housing. Although the final product was far from perfect, the enactment of this tax credit indicated Congress' belief that a tax incentive must be provided to encourage construction, rehabilitation and maintenance of low-income housing.

While the low-income housing tax credit was a step in the right direction from a standpoint of encouraging production, it is fraught with several problems. A major problem is its complexity. Many investors are wary of taking advantage of the credit simply because of its complex nature. Other problems

result from the credit's interaction with the passive activity loss rules, which limit, sharply, the tax incentives that may be derived by an individual investor from the credit.

A major problem with the tax credit for low-income housing is its interaction with the passive activity loss restrictions. In general, these restrictions limit the availability of tax credits attributable to investment in passive activities to tax liability resulting from passive activity income. Individuals whose adjusted gross income is \$200,000 or less are entitled to a deduction-equivalent of \$25,000, thus, producing a maximum credit, unrestricted by the passive loss limits, of \$7,000. This special allowance, however, phases-out for incomes between \$200,000 and \$250,000. Furthermore, for an individual investor to claim the maximum credit from an investment in low-income housing, his or her income must not increase beyond \$200,000 for 15 years from the date of the initial investment. (Regular corporations, of course, may take unlimited credits from investments in low-income housing, subject only to the general limitation on business tax credits.)

In order to attract individual investors to low-income housing, more must be provided in the way of tax incentives. Ideally, investments in qualifying low-income housing should be exempt from the passive activity loss restrictions. However, there are several improvements that can be made short of an outright exemption from the passive loss limits. For example, the passive loss limits could be lifted for purposes of the regular tax but a portion (e.g., 50 percent) be included in the

minimum tax base. Furthermore, the individual adjusted gross income limit for maximum use of the credit could be lifted. Allowing the maximum credit to be utilized only by individuals whose adjusted gross income is \$200,000 or less restricts the flow of money into low-income housing. It also complicates the structure of low-income housing development, because relatively large numbers of individual investors must be found in order to attract sufficient dollars to the investment, and high syndication fees may be required to put a sufficient number of investors together.

So long as there are means of assuring that high income individuals cannot "zero out" their tax liability through investments in low-income housing, there does not seem to be any point in limiting the maximum utilization of the credit to individuals below a specified income level. Furthermore, the credit already is limited by a state volume cap. However, if Congress deems it proper to retain an income limit, then the limit should be relevant only in the year of the initial investment, rather than having to be met over the life of the investment. This would remove a major impediment, since it would assure an individual, absent other problems such as failure to continue to meet the set-aside requirements, that he or she would be entitled to annual credits throughout the life of the project.

There are several other aspects of the low-income housing tax credit that should be addressed in corrective legislation. For example, the 1989 sunset date should be removed and the

credit should be extended indefinitely. Such action is needed for Congress to show its commitment toward addressing the long-term housing needs of low-income families, and to continue attracting much needed capital to low-income housing.

Furthermore, the present two-tier structure of the credit, under which non-federally subsidized projects are entitled to a more generous credit than federally subsidized projects, should be eliminated. This would recognize the fact that federal housing programs need a combination of direct subsidies and tax incentives in order to be viable.

Moreover, credit allocations should be permitted to be carried over from one year to the next so long as construction of a project which has been allocated credit authority begins no later than the year following the credit allocation year. This would recognize the fact that multifamily housing construction is often subject to unforeseen delays.

Another means of improving the low-income housing tax credit is contained in a bill, S.2115, introduced by Senator Danforth. That bill would allow taxpayers to utilize up to \$20,000 (plus 20 percent of remaining tax liability) of low-income housing tax credits annually.

In the quest for improving the low-income housing tax credit, however, the adverse impact of the 1986 Tax Act changes on multifamily construction, in general, should not be overlooked. The 1986 Tax Act treats the business of providing rental housing more harshly than any other type of business activity. Individuals who are involved in the business of

Senator CRANSTON. Mr. Connors, with apologies to you, I'm going to bypass you just for a moment to go to Mr. Shane because he came all the way from California and I want to hear him and I have to leave very, very briefly. I assure you I will know what you have said after you've said it.

**STATEMENT OF LEONARD SHANE, ON BEHALF OF THE U.S.
LEAGUE OF SAVINGS INSTITUTIONS**

Mr. SHANE. Thank you, Mr. Chairman. I am delighted to be here. And, Mr. D'Amato, it's good to be back. I'd like to open my comments today by refreshing your memory as to how you closed the last hearing when we were here. You invited us to come back and we're here.

You also expressed the hope that a great many more of your colleagues would come and listen and, unfortunately, they didn't.

I am not going to redo my testimony that has been submitted in writing. I think hopefully it will be read. Hopefully, the data that's in it will be used for research.

I want to presume, Mr. Chairman, upon the fact that I am probably the oldest member of the panel, as the senior citizen here, to talk a little bit of perspective.

Senator D'AMATO. Your claim is being disputed.

Senator CRANSTON. You're being challenged by Mr. Gourley.

Mr. SHANE. Three of us have traveled about 1,000 miles a minute to be able to be here. We have traveled 1,000 miles for each minute we have to talk. By the way, Mr. Cranston, there's a third Californian on my left, Mr. Klose, who lives in Carmel, in God's country, although the golf courses are too tough.

RELATIONSHIP WITH THE BORROWER

I would like very much to associate myself with some of the things that Mr. Lacy said. He talked in terms of the relationship with the borrower. And the fact of the matter is, that the people who testify on these various issues as we dealing with here have varied and very legitimately varied differences of interest.

For example, Mr. Lacy representing the mortgage insurance industry, myself representing the multitrillion dollar savings and loan industry, are basically related to the borrower on a long-term basis. There is nothing wrong with being related to the housing matters to build and sell or to be an agent of sale or to do all the things that others do that are very critically important, but there are different perspectives and there are different levels at which we should be looking at some of the issues.

The fact of the matter is, that we are dealing today with a housing policy of affordability and we must not allow ourselves to be wooed by the siren song of cliches because it is so popular to talk about the homeless and to talk about the affordability when in fact we should be talking about the overall housing issues of the Nation for all, because you cannot separate them, although they have to be functioned as such.

I'd like to point out that Mr. Sasser when he was here commented that we've been in a decline since 1980. And I want to commend to you—and I'm going to be very presumptuous—I'm going to send

to you a copy of a 1983 study in detail that published by the U.S. League of Savings Institutions, ringing the alarm bell as to what was coming, predicting that if there was not focus on the basic issues and away from some of the cliches we would be in the position that seems very, very close to where we are today and worsening.

But in those days, just 5 years ago, it was fashionable to talk about level playing fields. It was fashionable to talk about deregulation. It was fashionable to talk about, as the Chairman of the Federal Home Loan Bank at that time did, the right of financial institutions to fail. All of this is nonsense.

The fact of the matter is, that we are dealing with a social rather than economic issue and unless and until we resume—which is what you two gentlemen are leading the crusade to do—unless we resume the relationship to the social nature of the issue, we will not be able to deal with the economic consequences.

The fact of the matter is, and it really is a fact, that we are dealing in a massive, multitrillion dollar supply demand cycle. The fact of the matter is, that just a couple of years ago all of those at this table who dealt with the economics of housing used to read the statistics on vacancy factors, and that's what governed the availability.

There was no trickle-down theory and what we're dealing with now is the force-out theory. Unless and until we provide adequate housing for the full needs and the full stock, unless and until we approach the macro issue of housing, we are going only to be able to deal with some of the fringe issues, while important, are not the basic issues.

Two final points and hopefully we can get to some more detail in questioning. At no point, I hope, would you, who are in the responsible legislative positions, or we, who are in the responsible private sector positions, start talking about either/or solutions as they are proposed by your committee, by your staff, by our people. We need all, not either/or—all of the ideas are strong.

Finally, as I close, Mr. Chairman, I want to use a short allegory because I'm trying desperately to sell you some perspective. The allegory is this. We have the opportunity to deal with band-aids because there are cuts and wounds. We have the opportunity to deal with tourniquets because there are serious hemorrhages. But we also have to deal with the major causes of the disease of which these are symptoms. We do not ignore the symptoms. We must deal with them. They are serious. They are critical. But in the process of dealing with the homeless, in the process of dealing with affordability, we must not forget that there is a totally interrelated American way of life involved here—what used to be called the American dream. And as the macropicture of homeownership, the macropicture of the supply that has been diminished, and as we deal with the desperate needs of the less privileged, we should not lose sight of the bigger picture and the system of which we must deal.

Senator CRANSTON. Thank you very much, Leonard.

[The complete prepared statement of Mr. Shane follows:]

providing rental housing should, at least, be able to deduct out-of-pocket cash expenses. A bill introduced by Rep. Pickle (H.R.3224) would allow for that.

As important as it is to continue and improve tax incentives to encourage production of low-income housing, it also is important to consider tax incentives for the preservation of existing low-income housing stock. In this regard, we would invite your attention to a report issued by the National Housing Preservation Task Force on February 15, 1988. This report, entitled "The Preservation of Low and Moderate Income Housing in the United States of America," contains many sound ideas.

Regarding the role of tax policy in preserving the stock of low-income housing, the above-cited report makes the following recommendations:

- o The owner of a project eligible for prepayment should be permitted to re-establish the depreciable tax basis of the project at an amount determined by the project's appraised market value at its highest and best use. In return, the owner would have to agree to maintain the project as low- and moderate-income housing until the original maturity of the mortgage. An owner agreeing to such a "lock-in" should be permitted to use 65 percent of tax losses generated by the project to offset other income, without regard to the passive loss restrictions.
- o Owners of existing projects should be permitted to qualify for low-income housing tax credits, without

- o regard to when ownership of the property was obtained. The sale of a limited-dividend, low- and moderate-income housing project to a public entity or non-profit organization should be treated as a nontaxable event, if the sale has taken place prior to mortgage prepayment and if the purchaser agrees to continue the low- and moderate-income character of the project.

Many of these concepts are contained in H.R.3663, which would also provide additional depreciation deductions to owners of low-income housing if they agree to maintain the property as low-income property for a specified period of time, and make certain other modifications to the low-income housing credit and the rules relating to cooperative housing corporations. We are encouraged by the introduction of this bill because it recognizes the role that tax incentives could play in the preservation of our nation's low-income housing stock.

While it no doubt is crucial that tax incentives for the production and maintenance of low-income housing be retained and improved, it is equally important that tax incentives for homeownership be maintained. The mortgage interest deduction, the primary tax incentive for homeownership, has been limited both by the 1986 and 1987 Tax Acts. Already, there has been talk of limiting the mortgage interest deduction further in the interest of raising revenue. The mortgage interest deduction has made this the best housed nation in the world and must be preserved in its current state.

The mortgage revenue bond program, which was restricted in 1986, is due to expire at the end of 1988. This program, which has made homeownership a reality for nearly one million Americans, must be extended without any new restrictions being placed upon it. Our position concerning the importance of the mortgage revenue bond program is explained more fully in testimony we delivered before the Senate Finance Subcommittee on Taxation and Debt Management on March 28, 1988, and before the Senate Finance Committee on July 13, 1988.

A major tax issue that should be addressed because of its impact on housing costs is the taxation of contributions-in-aid of construction. Prior to enactment of the Tax Reform Act of 1986, contributions-in-aid of construction made to a regulated public utility company were not included in the income of the recipient utility. A contribution-in-aid of construction is money or property that is transferred to a regulated public utility company in consideration for the provision of utility services. Typically, utilities pass on the tax cost of contributions-in-aid of construction to the contributor (*i.e.*, homebuilder). This can add as much as \$1,000 to \$2,000 to the cost of a home in a typical development. In an era of increasing housing costs, this provision makes no sense.

A final tax issue that should be noted because of the additional tax burden it places upon larger homebuilders is the long-term contract accounting rules. In a recent IRS pronouncement (Advance Notice 88-66), it was decided that homebuilders who have sales contracts on homes that are under

construction at the end of their taxable year are subject to the long-term contract accounting rules. This means that those homebuilders must report income before they have delivered the homes and received the money with which to pay tax. Senator DeConcini has introduced legislation (S.2694) to correct this inequity. Furthermore, Senator Heinz has drafted a letter asking the Treasury Department to withdraw this inequitable policy position.

CONCLUSION

In conclusion, it has become increasingly clear that the challenges of today and the decade ahead can be met only by reinvigorating our rational commitment to housing. It is also clear that housing production is dependent on a healthy economy and reasonable interest rates. Accordingly, the impact of these proposals must be weighed in light of additional burdens on the federal deficit.

As the housing community proved so recently with the enactment of the Housing and Community Development Act of 1987, it is only through the combined effort and support by all that we are able to bring this goal to reality. Competing efforts and demands on the federal treasury and the political and economic agenda are real.

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To restore housing to its proper place as a top national priority, and thereby ensuring that housing truly will be the American promise, will require a dedicated effort by all. We stand ready to meet this challenge with enthusiasm, Mr. Chairman. We will continue to provide the Subcommittee with additional technical recommendations or various provisions. We look forward to continuing this open dialogue with the Housing Subcommittee, and I will be happy to respond to any questions you may have.

STATEMENT OF MR. LEONARD SHANE
ON BEHALF OF THE
UNITED STATES LEAGUE OF SAVINGS INSTITUTIONS
BEFORE THE SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
REGARDING THE NATIONAL AFFORDABLE HOUSING ACT
CONCEPT PAPERS

September 14, 1988

Mr. Chairman:

My name is Leonard Shane. I am Chairman and Chief Executive Officer of Mercury Savings and Loan Association of Huntington Beach, California. I appear before you today as Legislative Chairman of the *United States League of Savings Institutions, representing 3,200 savings and loan and savings bank members nationwide.

The U.S. League appreciates this opportunity to comment on the Concept papers published last month in anticipation of major legislative initiative in housing policy. Before addressing the issues raised in the papers, I want to compliment Chairman Cranston and Ranking Minority Member D'Amato for the process they have followed. the preparation of the Concept Papers and holding this round of hearings is a new and valuable step in the legislative process. While time-consuming in the short run, we are confident that, because of the process followed here, the eventual bill will be primed for action when the 101st Congress meetings next January.

*The U. S. League of Savings Institutions serves the more than 3,200 member institutions which make up the \$1.4 trillion savings association and savings bank businesses. League membership includes all types of institutions -- federal and state-chartered, stock and mutual. The principal officers include: Theo H. Pitt, Jr., Chairman, Rocky Mount, North Carolina; B.R. (Barney) Beekma, Vice Chairman, Oak Harbor, Washington; William B. O'Connell, President, Chicago, Illinois; and Philip Gasteyer, Executive Vice President and Director of Washington Operations. League headquarters are at 111 East Wacker Drive, Chicago, Illinois 60601. The Washington Office is located at 1709 New York Avenue, N.W., Washington, D.C. 20006. Telephone: (202) 637-8900.

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ROLE OF THE THRIFT INDUSTRY

As the Members of this Subcommittee are aware, the savings institutions which we represent have long been and continue to be the primary source of mortgage credit in the nation. The residential mortgage remains our primary business, year in and year out. Unlike other sources of such credit which enter the market in the "good" times and leave the market when volume declines, the community-based savings institution is there. Our members serve big cities, small towns, suburbs, and rural hamlets. They offer first mortgages as well as loans for home improvements, multi-family projects, and rehabilitation.

We emphasize this because we hope that in the design of a new housing policy, with whatever structure is decided upon, there will be incentives for federal and local authorities to look to the private sector's resources and experience to the fullest extent possible. If so, we believe that there will be a greater "bang for the federal buck". The available federal resources for new housing initiatives will be limited compared to the level of demonstrable need. It is imperative, therefore, that we do everything possible to get the most return out of the funds that are available. Using the private sector lending institutions for underwriting standards,

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financial instruments, project design, etc... will go a long way to achieving that goal.

We would make one general observation about the rental assistance for low-income families. Unless there is a great deal more money made available than we think probable, it is imperative that what federally-provided funds there are go dollar-for-dollar to those most in need. If eligibility standards are set at too high an income level, the result will be people getting help who are better off than many families who will be left out. Federal housing program should operate on a "those most in need come first" basis. Unless this is made explicit, those families at the top of the eligibility scale will be first served; later when the money runs out and all the units are filled, there will be lower income families left out. We fail to see what rationale justifies a policy of using federal funds to house people who earn 75% of the area median income while those at the 50% level receive no assistance. Current housing programs suffer from this injustice, and we find no evidence in the Concept Papers that that will not continue to be the case.

A TARGETTED PHA PROGRAM

Our primary concern with the Concept Papers focuses on the changes contemplated for the PHA mortgage limits. We

Senator CRANSTON. We now turn to Mr. Connors. I want to apologize to you and to Ed Klose, who's also come from California—from an incredibly beautiful part of California, Carmel—and to Mr. Keyes, for my need to be absent briefly. I hope to be back before you have finished.

STATEMENT OF JERRY C. CONNORS, ON BEHALF OF THE MANUFACTURED HOUSING INSTITUTE

Mr. CONNORS. Thank you, Mr. Chairman. I'm pleased to appear before the subcommittee on behalf of the members of MHI, the Manufactured Housing Institute, to comment on the staff concept papers for the National Affordable Housing Act being developed by the subcommittee.

We are delighted that the committee is addressing the critical issue of housing affordability and is moving toward a new national housing policy calling for a renewed Federal commitment to our nation's housing needs.

MANUFACTURED HOMES

Until the early 1980s, when Congress began to give parity to manufactured homes in Federal housing programs, the manufactured housing industry has never been seriously considered in the development and implementation of Federal housing policy. However, adoption of the National Manufactured Home Construction and Safety Standards [the HUD Code] over a decade ago set in motion a trend that has brought the modern manufactured home into the mainstream of the American shelter industry.

Without manufactured homes, many people of modest means could not realize the dream of homeownership. The manufactured housing industry historically has dominated the lower-priced end of the new home market.

All but the poorest families can afford a loan on the average priced manufactured home. According to a 1987 foremost insurance company survey, the average income of a family owning a manufactured home was \$19,500. At today's interest rates, families earning between \$10,000 and \$15,000 can buy a manufactured home without a subsidy. In other words, 80 percent of all American families can afford a manufactured home. By contrast, only about 20 percent of all families have incomes large enough to afford a loan on the average site-built home.

Owning a manufactured home is actually less expensive than renting a house or an apartment. The median monthly income housing cost for manufactured home owners are \$294 compared to \$332 for home and apartment renters and \$463 for site-built home owners.

MHI supports subcommittee recommendations to expand homeownership opportunities, particularly for first-time home buyers. Before commenting on the specific proposals contained in the concept papers, I want to emphasize the special role that the industry plays in providing affordable housing.

As Congress considers expanding homeownership opportunities and creating new organizational entities within HUD, we urge it to

look carefully at how the Office of Manufactured Housing fits into such a framework.

In addition to its regulatory function, we believe HUD can play a far greater role than it previously has in promoting and encouraging manufactured housing in assisted housing programs, credit enhancement programs, and in efforts to foster public-private partnerships for affordable housing.

MHI supports the general thrust of the staff recommendations to revise the FHA 203(b) program to expand homeownership opportunities for first-time home buyers. We are pleased that many of the provisions of S. 2379 sponsored by Senators Sasser and Heinz, have been incorporated into the staff concept papers.

Clearly, our Federal housing insurance programs should reflect the critical problems facing the entry level purchaser. At the same time, a greater effort should be made to target them to lower income home buyers. Our own experience with the FHA programs demonstrates that the lower income home buyer is not necessarily the home buyer that the FHA programs seek to insure.

The primary FHA program using manufactured housing is the FHA Title I Manufactured Home and Homesite Loan Program which insures loans on personal property manufactured homes and individual home sites. It is a coinsurance program and because it provides insurance on nonmortgage type loans, is structured somewhat differently than the FHA 203(b) program.

As with other parts of the housing finance industry, the Title I Manufactured Home Loan Program has experienced losses due to high default rates in oil-producing States, particularly in Texas and Oklahoma, where there has been a severe economic downturn.

In spite of these losses, the program has been largely successful and has provided homeownership to those who because of their lower incomes would not have otherwise been able to qualify for other forms of assistance.

The subcommittee should also consider extending lower down-payment requirements for this program similar to those proposals being suggested by Senators Sasser and Heinz.

Additionally, Congress should change the Manufactured Home Loan Insurance Program so that loans insured under the program will continue to be effectively insured for the life of the loan.

The next few sections of our testimony deal with specific programs. We urge the committee to be especially sensitive to the needs of lower-income Americans and the role manufactured housing can play in structuring and implementing these programs.

Thank you, Mr. Chairman, for the opportunity to comment, and I look forward to answering your questions.

Senator D'AMATO. Thank you.

[The complete prepared statement of Mr. Connors follows:]

urge the Subcommittee to look at this subject in the context of what the basic purpose is of FHA mortgage insurance. We have always understood that the program is intended to assist prospective homeowners who cannot qualify for conventional mortgage credit. If that is no longer the role of FHA then its new role should be clearly enunciated. The mission of FHA as we understand it, is to insure mortgage loans for those who cannot meet conventional credit standards, providing they meet certain federal standards. For these families, homeownership becomes viable where it would not otherwise be. Mortgage limits have been a part of the FHA program for two reasons: mortgage limits minimize the exposure of the insurance fund so that the fund can be self sustaining and not need an annual appropriation of tax dollars; the limits were also intended to act as a proxy for an income test -- a means of assuring that the federal aid went to those who really needed it.

As we testified last spring, the U.S. League supports the FHA program -- as it was intended to be -- as a means of achieving homeownership for people who could not qualify for conventional financing. The proposal to lift the cap on the mortgage limits goes in the opposite direction. We are particularly concerned with the homebuyer who is already a homeowner and is transferring substantial equity from one house to another. In this case, a \$100,000 FHA loan can readily support the purchase of a \$175,000 home -- for a buyer who has

\$75,000 in proceeds from the sale of the previous home. The rhetoric surrounding this topic often refers exclusively to the first-time homebuyer. We ask you to look carefully at the concept as set forth. There is nothing here that limits the use of FHA, at the recommended higher limits, to a first-time buyer. As we suggested at the last hearing, if someone wants to truly help first-time buyers by making the program theirs, and theirs alone, then we can take a very different approach to the higher mortgage limits recommendation. However, so long as most FHA loans are going to refinancing and "trade-ups", the proposed changes are nothing more than moving a federal assistance program into areas well served by private institutions through conventional loans. An alternative to the first-time buyer requirement, would be to replace the mortgage limit with income qualification rules such as those used for mortgage revenue bonds.

TAX CODE CHANGES

The U.S. League welcomes the attention given in the Concept Papers to the potential value in IRA and 401(k) plans to facilitate homeownership. The League has for some time now supported legislation to make the necessary changes in the Tax Code. There are two basic principles behind these and similar recommendations. First, the tax code already recognizes a wide variety of investment options for tax deferred retirement

savings. given the range of options, it defies all logic that one cannot invest in one's own home. This is especially puzzling as a person can, in effect, invest in someone else's home as part of their retirement plan (placed at a thrift institution) but not their own. Second, buying one's own home is an important part of family financial planning for retirement. The purchase of a home is not a consumption activity -- it is an investment -- the most important investment most people ever make. Looked at another way, what could be more logical in planning for retirement than to own a home rather than having to pay rent out of retirement savings?

The proposals to free up IRA and 401(k) funds for investment in home ownership has been opposed by those who think of home ownership as consumption. This view suggests that retirement planning would suffer from this flexibility in use of the funds. There is a sense in their objections that someone is "getting away with something". Unfortunately, we sense some of that feeling in the details of the Concept Papers in this area. The requirement that one must "borrow" one's own funds and repay it with interest serves no valid purpose that we can imagine. Why should people be saddled with an added debt service to use their own money for a down payment on their home?

The plan also suggests limits on the price of a home one can buy or amount that can be invested. These requirements

are unwarranted for one simple reason -- IT'S THEIR MONEY. We are not dealing here with a government assistance program. The money belongs to the individual, not to the Federal Government. Rather than the complex array of details presented in the paper, we strongly suggest that Congress simply provide that buying one's own home is one of the many investment options for retirement savings.

COMMUNITY REINVESTMENT ACT

In order to encourage a greater degree of investment in the struggling neighborhoods of our cities, two changes must be made. First, in the regulatory area, an essential change must take place in the attitude and procedures of the examination process. At the present time, quite appropriately, any depository institution examiner looks first and foremost at the "Safety and Soundness" factors such as the quality and performance of the institutions' loan portfolio. A high percentage of slow- or non-performing loans will result in a poor rating for that institution by the examiner. It matters not that the loans in question may contribute to reinvestment in neighborhoods and communities. Safety and soundness is a most important consideration for supervision of deposit-taking financial intermediaries -- but it should not be the exclusive evaluation of institutional performance.

To accomplish the needed change in the regulatory climate, Congress will have to direct the financial regulatory agencies to recognize the potential for a partnership or mix in serving the fiduciary function for depositors while recognizing the housing credit needs of the larger community. housing bill being developed by this Subcommittee would be the logical starting place. The bill should include specific direction to the bank and thrift regulators to differentiate loan performance evaluations by the type of community in which the loan is made.

The second innovation needed to make greater investment possible is the creation of a credit risk buffer between the fiduciary responsibility and the lending institution and the credit risk involved in the loan. The safety of the depositors' funds rests with the security and underwriting of the loans made with those funds. Protecting the depositors' funds is the institution's primary responsibility. In the field of mortgage lending there are two general factors considered in making a loan: the credit-worthiness of the borrower and the value of the property securing the loan. Asking depository institutions to make loans that do not meet the underwriting standards is tantamount to telling the lender to put his depositors' money at an undue risk.

We believe it is possible to create a credit buffer with a combination of federal and local government authority working with the private sector. Indeed, as Senator Riegle observed at recent hearings of the full Senate Banking Committee, the private sector possesses invaluable expertise in assessing and underwriting credit risk. In the area of housing and home ownership, this expertise is found most prominently in our supervised savings institutions. The challenge should be to put that expertise to work in partnership with federal insurance or guarantees to deliver safe and sanitary housing and home ownership opportunities to under-served neighborhoods and communities throughout our nation.

We also recommend to the Subcommittee that they look at the Neighborhood Reinvestment Corporation and the Corporation's recently announced plan for a secondary market for "unbankable loans". While this plan is in its infancy, we believe it contains the basic framework that will enable fiduciary institutions to safely lend in what are otherwise high-risk areas.

DELIVERY OF FINANCIAL ASSISTANCE

The Concept Papers deal, to a great extent, with the design of a new and imaginative structure to be created within the Department of Housing and Urban Development for the delivery of housing assistance. The plan relies heavily on the commitment and ability of local authorities to work in cooperation with the private sector, both for profit and non-profit. This emphasis is well placed in our view. While the need for housing is national in terms of the scope of need, the solutions -- more housing at affordable prices -- is inherently local. Each house or apartment building gets built or rehabilitated someplace -- some local place. More importantly, the exact nature of the housing need is not the same in every part of the country or in every community. We applaud the emphasis placed by the Concept Papers on local planning and program design. We would strongly urge that in the next step, you go one step further and include incentives for the involvement of private sector lenders and developers.

Whether the HOME Corporation and the HOP concept will be the most practical delivery system. We are not prepared to say at this time. If the plans relies less on federal

bureaucracy and regulations and more on local decision-making, then the effort to implement such a plan will be worthwhile. As important as the delivery structure can be, the bottom line is meeting legitimate housing needs of American families who, for whatever legitimate reason, cannot obtain the housing they need without government assistance. This depends on how much money is fed into whatever delivery system is adopted.

CONCLUSION

In conclusion, Mr. Chairman, the U.S. League is pleased to see the progress made to date toward the introduction of a major housing policy bill. For some time now housing has been declining as a public policy agenda item. It does little good in our view to try to assign blame for this trend. What is important now is to reverse that trend and get housing back to its rightful place as a federal priority. The effort undertaken here is a major step in that direction. Obviously, we have differences with some of our housing industry friends. Let there be no doubt, however, that all of us want to see this process continue to the enactment of a watershed housing bill early next year.

Thank you for giving us this opportunity to share in this important effort. I look forward to your questions.

SUPPLEMENT TO TESTIMONY
OF MR. LEONARD SHANE
FOR THE
UNITED STATES LEAGUE OF SAVINGS INSTITUTIONS
SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

September 14, 1988

The statement submitted by the League argues for a more targeted FHA program than now exists and takes exception to the proposal to liberalize the program by removing the existing cap on high cost area calculations.

THE FHA LOAN LIMITS

The national loan limit for an FHA-insured mortgage is \$67,500, except in high cost areas where the limit is the lesser of \$101,250 or 95% of the median home price. (Alaska, Hawaii and Guam are exceptions to this rule).

A proposal exists to remove the "lesser of" test for high-cost areas. The FHA loan limit would simply be set at 95% of the median home price.

This is an unnecessary change. It would provide government subsidies to households that are not in need of assistance. It would expand the FHA program into price ranges that have been and will continue to be serviced by conventional mortgage lenders. Furthermore, a higher loan limit does nothing to assist those in most need and will actually lessen their chances of homeownership.

Consider the case of the Anaheim/Santa Ana metropolitan area located in Orange County, California. According to data collected by the U.S. League of Savings Institutions, the median sales price in this area was \$175,000 in the second quarter of 1987. Data from other sources suggest that over the past year, the median home price in this area increased by about 18%. Hence, by mid-year 1988, the median sales price for new and existing homes in Anaheim/Santa Ana must have been in the vicinity of \$206,000.

Under the proposal, the FHA loan limit in Anaheim/Santa Ana would equal \$195,700 or almost double the current limit. It is hard to justify providing federal housing assistance to a household with an annual income of at least \$78,300. This is, after all, the minimum income needed to afford a mortgage of \$195,700. The public policy objective of the FHA should not be to help families with over \$75,000 in income buy homes valued at more than \$200,000.

Because homes in this price range exceed both FHA and FHLMC/FNMA loan limits, it is the only area where private mortgage lenders can operate without facing competition from government agencies. This so-called "nonconforming" market has always been adequately serviced by private lenders and, if need be, by private mortgage insurers.

The FHA's presence does not need to be increased to help the first-time buyer. Even in a high-cost market like Anaheim/Santa Ana, private sector mortgage lenders have been able to meet the needs of the first-time buyer. The U.S. League survey, which included only conventional mortgage loans, found that 37.3% of the home buyers in this geographic area were first timers. This was actually above the national average of 35.1%.

Lastly, it should be recognized that merely increasing the loan limit will not help those in the greatest need, namely households with low and moderate income. Higher limits will not increase the supply of lower priced homes nor will they help low and moderate income households save for a down payment. Higher limits do not make housing more affordable for these groups. Indeed, raising the limits will increase the demand for FHA financing among the least needy and will make it more difficult for the most needy to find such financing.

Prices, Qualifying Income and First-Time Buyers in High-Cost Areas

	Median Purchase Price 1987	Estimated Median Purchase Price 1988 (1)	95% of 1988 Median	Annual Income To Afford Mortgage at 9% of Median (2)	Percent First-Time Home Buyers In 1987
<u>Metropolitan Area</u>					
Anaheim/Santa Ana	\$175,000	\$206,054	\$195,751	\$78,313	37.3%
San Francisco/Oakland/San Jose	169,347	187,720	178,334	71,345	42.0%
Boston	161,000	167,535	159,158	63,673	57.4%
San Diego	156,919	174,153	165,445	66,189	31.7%
Los Angeles/Long Beach	142,900	175,632	166,850	66,751	42.1%
New York/Northern New Jersey/ Long Island	142,400	157,195	149,335	59,743	48.7%
Washington, D.C.	137,500	171,422	162,851	65,151	34.9%
Chicago	110,000	119,113	113,158	45,270	40.6%
National	\$95,000	\$97,872	\$92,978	\$37,197	35.1%

(1) Based on the change in the median existing home price reported by the National Association of Realtors.

(2) Income needed based on a 30-year, fixed-rate mortgage with a rate of 10.75%. Housing expense equals 28% of home buyer's income.

NEW U.S. HOUSING PRODUCTION 1980-1987

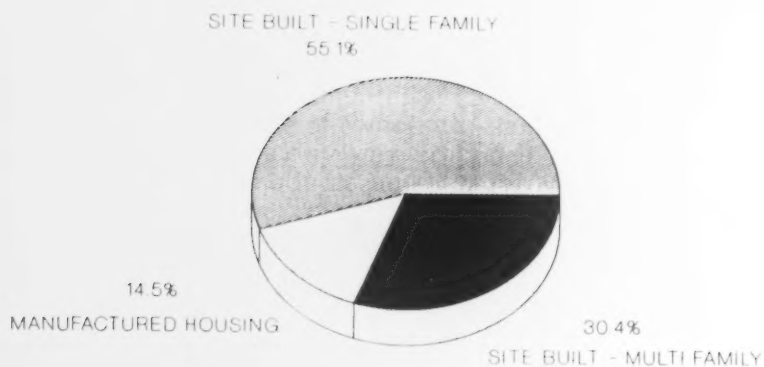


CHART 2

SITE-BUILT HOME LOAN AFFORDABILITY

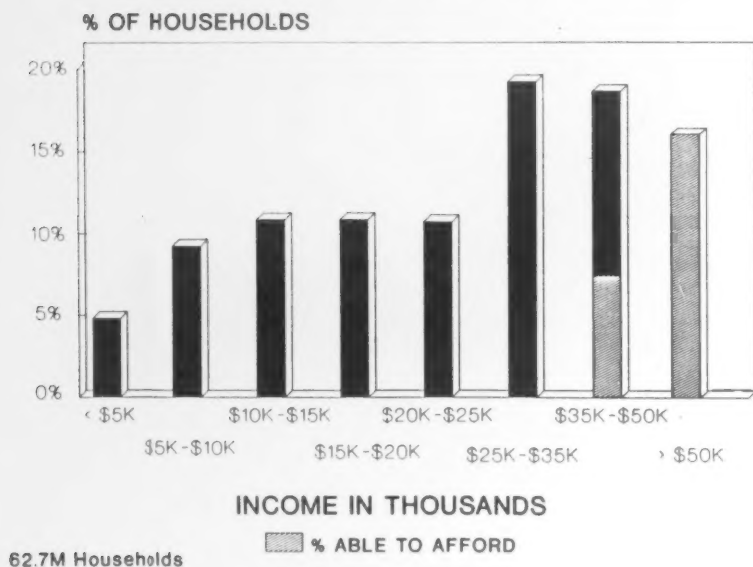


CHART 3

MANUFACTURED HOME LOAN AFFORDABILITY

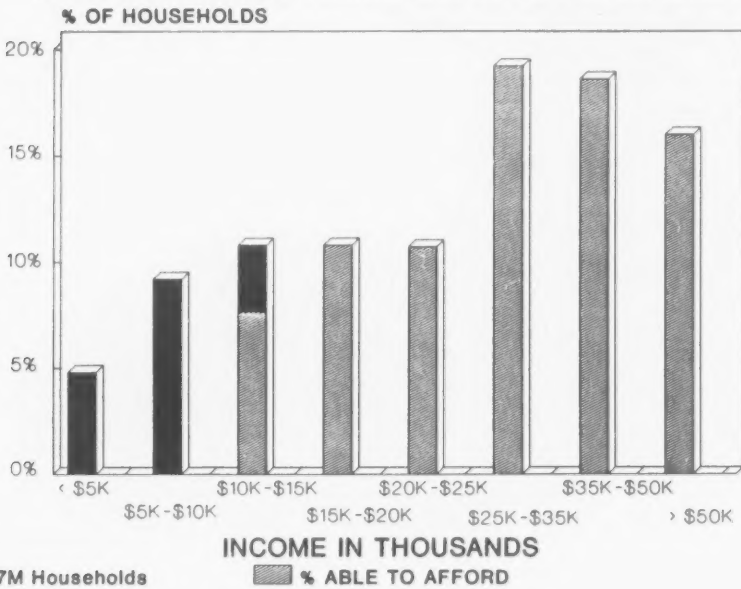


CHART 4

MONTHLY HOUSING COSTS 1983 FOR OWNERS & RENTERS

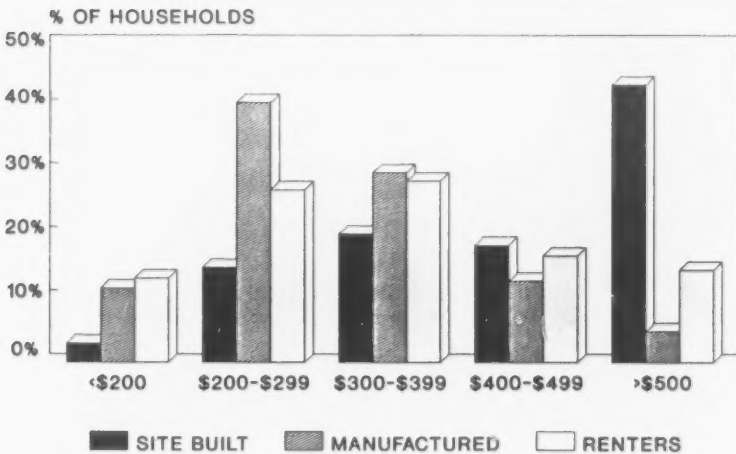


CHART 5

Senator D'AMATO. Mr. Klose.

STATEMENT OF EDWIN A. KLOSE, PRESIDENT, KLOSE
ASSOCIATES NETWORK, INC., CARMEL, CA

Mr. KLOSE. Thank you, Mr. Chairman.

I appreciate this opportunity of sharing with you my comments regarding the first-time home buyers and related provisions of the National Affordable Housing Act.

In reviewing the total staff work, I thought they did a terrific job with this complex project. I noted that at the outset, the staff discussed homeownership—that is the home equity investment—and that the balance of the report focused on home debt investments. I strongly support these concept provisions as outlined in the staff paper and I'd like to comment specifically on just the IRA applications because the IRA's are my specialty.

IRA CONCEPT

I'm delighted at the support provided to the IRA concept of using money within the IRA to acquire the home, but I didn't discern how significant that simple concept might be in taking a first step toward solving some of the housing problems we have.

Right now the IRA's represent over \$300 billion in investment capital. They represent between 15 and 20 percent of all pension fund investments. That's how much the little IRA program that got started less than a decade ago has grown, and this capital can—in a revenue neutral way—be released to help solve the national affordable housing problem.

The limitations now imposed on IRA participation in a home investment as outlined in the bill under consideration well focus financial benefits on younger families who are generally identified as those being under 34 years of age and with incomes of perhaps less than \$30,000. This group has shown a decline in ownership of homes since 1979 and I wanted to check to see how important this group would be in terms of providing a leadership role in providing more funds going into housing, if indeed they could apply the IRA program investment proposals as outlined.

I used IRA market research of the Raddon Financial Group, a Chicago-based firm well known to the U.S. League and presumably to this committee, and found that in 1986 24 percent of those surveyed who were between the ages of 18 and 34 already have an IRA. Not only that, but the average IRA balance 2 years ago was \$6,190 within the IRA program. Ages 18 to 34 represent 36 percent of all U.S. households. They held 7.3 million IRA accounts with \$45.5 billion in IRA deposits, about 25 percent of all IRA deposits.

If this IRA money, \$45 billion in this particular age group, could be let loose in the housing market for home investment this would all be revenue neutral investments in our economy because this money is already in a special position within our Federal Tax System.

Of some additional interest to the subcommittee would be why in this age group, 18 to 34, the young family group, why do they even have IRA programs? The No. 1 reason for an 18 to 34 year old to have an IRA is to save funds for retirement. Of those with an IRA

STATEMENT OF
THE MANUFACTURED HOUSING INSTITUTE
BY
JERRY C. CONNORS
BEFORE
UNITED STATES SENATE
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
THE HONORABLE ALAN CRAMPTON, CHAIRMAN
PROPOSALS FOR THE NATIONAL AFFORDABLE HOUSING ACT

WEDNESDAY, SEPTEMBER 14, 1988
STANLEY SENATE OFFICE BUILDING

MANUFACTURED HOUSING INSTITUTE
JERRY C. CONNORS, PRESIDENT
1745 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VIRGINIA 22202

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INTRODUCTION

Mr. Chairman, members of the Senate Housing Subcommittee, my name is Jerry Connors. I am the president of the Manufactured Housing Institute.

The Manufactured Housing Institute (MHI) is a national trade association representing manufactured home builders and related suppliers of goods and services to the industry and its consumers. MHI manufacturer members produce 60 percent of manufactured homes built in the United States.

On behalf of the members of MHI, I am pleased to appear before this subcommittee to comment on the staff concept papers for the National Affordable Housing Act that is being developed by the subcommittee.

We are delighted that the committee is addressing the critical issue of housing affordability, and is moving toward a new national housing policy calling for a renewed federal commitment to our nation's housing needs. Your proposals provide the framework for the manufactured housing industry to play an important and expanded role in the development and implementation of the National Affordable Housing Act.

Until the early 1980's, when Congress began to give parity to manufactured homes in federal housing programs, the manufactured housing industry has never been seriously considered in the development and implementation of federal housing policy. However, adoption of the National Manufactured Home Construction and Safety Standards (the HUD Code) over a decade ago set in motion a trend that has brought the modern manufactured home into the mainstream of the American shelter industry.

The HUD Code, this nation's only national building code, has led to growing consumer acceptance and transformed the mobile home of yesterday into a permanent housing choice for more than 10 million Americans.

Without manufactured homes, many people of modest means could not realize the dream of homeownership. The manufactured housing industry historically has dominated the lower-priced end of the new home market which, because of continuing cost increases, has been largely abandoned by other sectors of the shelter industry.

The average structural cost of a manufactured home without land was \$23,000 in 1987. At retail, a manufactured home costs less than half as much per square foot as a site-built home. In 1986, the square footage cost of a manufactured home was \$19.05 versus \$49.05 for a site-built home. From 1980 through 1986, manufactured home prices have

increased only 2.4 percent annually, up a total of 18.1 percent over the last seven years. This is in contrast to a 66.5 percent increase in the traditional site-built home between 1980 and 1986. (See Chart 1).

There are about 4.7 million manufactured homes in the nation's housing stock, 5.6 percent of all the occupied year-round housing units in the United States. Since 1980, more than two million manufactured homes have been built, representing 14.5 percent of all new U.S. housing production and one-quarter to one-third of all new single-family homes sold. (See Chart 2). But this statistic is really only part of the increasing trend toward residential factory production. The fact is that most homes constructed today -- even site-built homes -- are composed of factory built components. Builders are moving to factory components to control costs and reduce housing prices to consumers.

All but the poorest families can afford a loan on the average priced manufactured home. According to a 1987 Foremost Insurance Company survey, the average income of a family owning a manufactured home was \$19,500. At today's interest rates, families earning between \$10,000 and \$15,000 can buy a manufactured home without a subsidy. In other words, 80 percent of all American families can afford a manufactured home. By contrast, only about 20 percent of all families have incomes large enough to afford a loan on the average site-built home. (See Charts 3 and 4).

Owning a manufactured home is actually less expensive than renting a house or apartment. The median monthly housing costs for manufactured homeowners are \$294 compared to \$332 for home and apartment renters and \$463 for site-built homeowners, according to the 1983 Annual Housing Survey. (See Chart 5).

Clearly, manufactured housing can and must play a growing role in the mix of federal, state, local and private initiatives to rebuild and reinvigorate our nation's housing policy.

HOMEOWNERSHIP AFFORDABILITY

MHI supports subcommittee recommendations to expand homeownership opportunities, particularly for first-time homebuyers. Before commenting on the specific proposals contained in the concept papers, I want to emphasize the special role that the manufactured housing industry plays in providing affordable housing.

In 1974, Congress authorized the Department of Housing and Urban Development (HUD) to develop a national preemptive building code and enforcement system for manufactured housing. This program is administered by HUD's Office of Manufactured Housing. As Congress considers expanding homeownership opportunities and creating new organizational entities within HUD, we urge it to look carefully at how the Office of Manufactured Housing fits into such a framework.

In addition to its regulatory function, we believe HUD can play a far greater role than it previously has in promoting and encouraging manufactured housing in assisted housing programs, credit enhancement programs, and in efforts to foster public-private partnerships for affordable housing.

Federal Housing Insurance (FHA)

MHI supports the general thrust of the staff recommendations to revise the FHA 203(b) program to expand homeownership opportunities for first-time homebuyers. We are pleased that many of the provisions of S.2379 sponsored by Senator's Sasser and Heinz, have been incorporated into the staff concept papers.

Clearly our federal housing insurance programs should reflect the critical problems facing the entry level purchaser. At the same time, a greater effort should be made to target them to lower income homebuyers. Our own experience with the FHA programs demonstrates that the lower income homebuyer is not necessarily the homebuyer that the FHA programs seek to insure.

FHA Title I Manufactured Home Loan Program

The primary FHA program using manufactured housing is the FHA Title I Manufactured Home and Homesite Loan Program which insures loans on personal property manufactured homes and individual homesites. It is a coinsurance program, and because it provides insurance on non-mortgage type loans, is structured somewhat differently than the FHA 203(b) program.

As with other parts of the housing finance industry, the Title I Manufactured Home Loan Program has experienced losses due to high default rates in oil-producing states, particularly Texas and Oklahoma, where there has been a severe economic downturn.

In spite of these losses, the program has been largely successful and has provided homeownership to those who, because of their lower incomes, would not have otherwise been able to qualify for other forms of assistance. The Title I program has financed over 200,000 loans since 1980. This represents about 10 percent of all manufactured homes sold since that time.

In 1986 HUD implemented substantial revisions to the Title I home loan program, which strengthened underwriting criteria and HUD's control over the program. We supported those initiatives and are working with HUD on further changes. At the same time, we believe that further refinements should be made with the primary goal of ensuring that it remains available for those homebuyers who are in the greatest need of federally insured home loans.

Unfortunately, HUD has recently proposed regulations that would severely restrict the availability of this program to such homebuyers (FR-2370, Aug. 13, 1988). These proposals are contrary to the initiatives being considered by the subcommittee. The subcommittee should urge HUD to withdraw its proposals and reevaluate them in terms of the Congressional efforts to promote affordable homeownership opportunities.

The subcommittee also should consider extending lower downpayment requirements for this program, similar to those proposals being suggested by Senator's Sasser and Helms.

Additionally, Congress should change the Title I Manufactured Home Loan Insurance Program so that loans insured under the program will continue to be effectively insured for the life of the loan. The insurance coverage limit of 10 percent and the annual reduction of insurance reserves needs to be eliminated so that manufactured home loans insured under the program will be treated on a basis similar to loans insured under the FHA 203(b) program.

These proposed changes will expand the available financing for this important source of affordable housing, and more effectively target the FHA program to lower-income homebuyers.

FHA Title II 203(b) Program

In 1983, at the urging of Congress, HUD published interim regulations to authorize FHA 203(b) insurance for permanently sited manufactured homes. Since that time, HUD has made very little effort to encourage its use. It has never implemented final regulations nor its handbook for permanent installations. Many HUD field offices are reluctant to insure such loans. Congress should urge HUD to implement the final regulations for this program and encourage its use.

Individual Retirement Accounts (IRAs) and 401(k) Plans

MHI supports recommendations to permit eligible homebuyers to invest funds in their IRA's or 401(k) plans for downpayments on a principal residence. A principal residence should be defined to include a loan on a manufactured home, which in many cases is not a traditional real estate mortgage, but a personal property loan. Internal Revenue Service regulations for the Mortgage Credit Certificate Program have defined residence to include manufactured homes financed as personal property, (Treas. Reg. 1.25-1T(b)(1)).

Mortgage Revenue Bonds (MRBs)

MHI supports recommendations to extend the Mortgage Revenue Bond (MRB) and the Mortgage Credit Certificate (MC) programs and to continue to target them to moderate income homebuyers. While the Mortgage Credit Certificate program includes manufactured home financing, the Mortgage Revenue Bond program limits the use of manufactured housing to

real estate. This means that the traditional manufactured home land-leased community is not eligible for mortgage revenue bond financing. Since 40 percent of all manufactured homes are located in such communities, extending the Mortgage Revenue Bond program to the development of such communities would be consistent with recommendations to target the program to low and moderate-income homebuyers.

PRESERVATION OF AFFORDABLE HOUSING

MHI supports recommendations by the subcommittee staff to mobilize a national effort to retain the supply of housing affordable to low-income and moderate-income Americans. While we understand that these recommendations rightfully focus on federally assisted housing, the committee should be aware of the preservation issues related to manufactured housing.

There are more than 10 million manufactured homes in the nation and almost half of them are in manufactured home parks. Historically, these parks were sited in commercial and industrial areas. Changing land use and suburban growth have begun to threaten many existing manufactured home parks. While a growing number of communities are changing zoning ordinances to include manufactured housing in residential communities, the availability of new sites for manufactured home parks is dwindling and in some cases nonexistent. Manufactured homeowners who are being displaced as a result of different land use policies are faced with a particular problem—where to relocate their home.

Additionally, federal flood insurance policies threaten many existing manufactured home communities, particularly in California, Florida and Michigan. Fortunately, Congress has recognized this problem and has provided some additional time so that industry and the Federal Emergency Management Agency (FEMA) can jointly develop solutions that encourage effective flood plain management and minimize displacement of the approximately 200,000 homeowners in jeopardy.

As the subcommittee develops initiatives to preserve the existing supply of affordable housing, it must not forget the manufactured housing stock and recognize the impact of the loss of this stock on the overall supply of affordable housing.

INVESTMENT IN STATE AND LOCAL HOUSING STRATEGIES

Housing Opportunity Partnerships (HOP)

MHI strongly supports proposals to provide flexible assistance to state and local housing strategies, revised FHA insurance authority and an extension of mortgage revenue bond authority.

The proposals as outlined by the subcommittee staff strike an appropriate balance between flexibility and responsibility and include needed incentives for further state and local innovation and commitment to affordable housing.

The proposals target the use of Housing Opportunity Investment Certificates for the expansion of long-term affordable housing and provide the appropriate incentives to eliminate local regulatory barriers that increase the cost of housing.

Incentives for local governments to eliminate barriers to affordable housing and maximize funding by leveraging resources will be most effective if the federal funding is sufficient to encourage participation.

Because the federal budget deficit will undoubtedly put constraints on the ability to adequately fund this program, it is absolutely critical that every effort be made to maximize affordability. For example, thought should be given to making all federal community and economic development programs contingent on the development and implementation of effective housing strategies. At a minimum, it is essential to ensure that there is effective oversight to guarantee that federal government policies and programs are not working at cross purposes and are, in fact, enhancing state and local efforts to develop affordable housing strategies.

We strongly urge that Housing Opportunity Partnerships funds be limited to affordable housing that uses cost-effective building technologies, and that definitions of affordable housing include all forms of factory-built housing. Affordable rental housing should include manufactured home land-leased communities. The proposal for the establishment of a wholly-owned Government National Home Corporation (HOME Corporation) within HUD to administer the HOP program, the proposed credit enhancement programs, are consistent with MHI's concerns that the existing organizational structure at HUD is too fragmented to effectively target resources to low and moderate-income housing initiatives.

Thought should be given to how the HOME Corporation's responsibilities interface with current programs, such as the Manufactured Housing Program, the Joint Venture for Affordable Housing program, and programs under the Office of Policy, Development, and Research. We think there is room for more effective management and greater targeting of our federal housing programs.

CREDIT ENHANCEMENT

Securities Backed by Mortgage Pools

MHI supports recommendations to provide additional credit enhancement by authorizing the HOME Corporation to guarantee securities backed by pools on affordable rental housing. Again, the definition of rental housing should include manufactured housing financed as personal property and sited in land-leased communities.

At the same time, Congress must urge the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) to implement their statutory authority to purchase and sell personal property loans used to finance the purchase of manufactured housing.

We feel that the absence of conventional secondary market programs is at least part of the reason a loan to purchase a manufactured home typically carries an interest rate that is at least two to three percent higher than interest rates on real estate mortgages.

FHA Multifamily Housing Insurance

MHI supports the recommendations of the subcommittee staff to simplify the FHA multifamily insurance programs. In doing so, we urge the subcommittee to include the development of manufactured home land-lease communities, condominium and cooperative developments. Because manufactured housing is single-family, single-story housing, it does not fit within HUD's current definitions of multifamily housing for the purposes of multifamily loan insurance.

In addition, MHI supports revisions to Section 207 of the National Housing Act which provides loan insurance for the development and rehabilitation of manufactured home land-leased communities. This program needs to be updated to reflect current market conditions. For example, the current program makes it impossible for developers and retailers to joint venture and discourages developers from selling shares in cooperative communities.

LOW-INCOME RENTAL ASSISTANCE

MHI supports the objectives outlined by the subcommittee staff to establish a new form of rental assistance. Currently, the Section 8 program and the voucher system authorize the use of manufactured housing. As Congress moves to restructure the current system of rental assistance, it should keep in mind the need continue to provide assistance for the rental of manufactured home spaces on which homes are located and to authorize the use of assistance for cooperative ownership in manufactured home land-leased communities.

SUPPORTIVE HOUSING

MHI supports the proposals to refocus and revitalize the housing programs for the elderly, handicapped and homeless persons. It makes sense to establish a new position within HUD to administer these programs. Again we would urge the subcommittee, as it drafts the specifics of the National Affordable Housing Act, to take into consideration the role that manufactured housing can play in meeting the special needs of the elderly and the handicapped.

Manufactured home living, particularly in land-leased communities and subdivisions, provides not only affordable shelter, but a sense of community and stability. It is easily adaptable to the needs of the handicapped and the frail elderly.

PRICES OF NEW HOMES

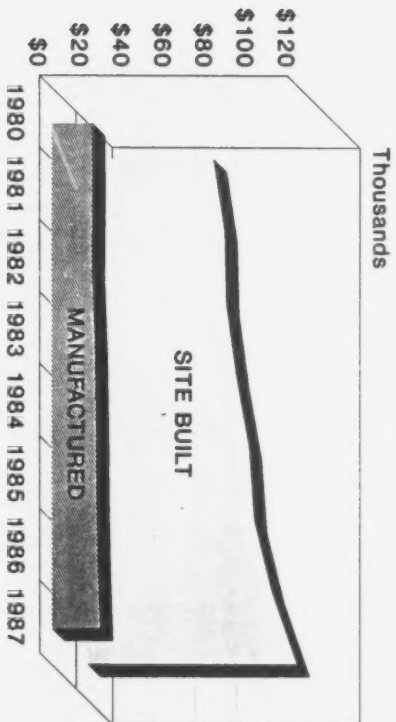


CHART 1

CONCLUSION

Mr. Chairman, on behalf of the manufactured housing industry, I would like to commend the subcommittee staff for the challenging task of developing for discussion a detailed framework for a New National Affordable Housing Act.

Thank you for the opportunity to appear before the subcommittee. We look forward to continuing to work with you, members of the subcommittee, and your staffs. I will be pleased to respond to any questions.

and in the 18-34 age group and with incomes of less than \$25,000, about 48 percent are building funds for retirement. In other words, these 18 to 34 year olds are committing themselves to a 30-year program whereby they will help to fund their own future financial needs. A recent national survey by the International Association of Financial Planners also confirmed that the No. 1 financial goal of consumers was savings for retirement.

The IRA is very clearly an important part of this goal of saving for retirement and home investment should be a permitted investment for the IRA.

The proposed downpayment reduction for FHA mortgages I think will also free up additional funds to go into the IRA home investment market.

There are very few problems inherent in the proposal to use IRA money for either IRA equity investments or debt investments. I frankly favor the IRA equity approach rather than the debt approach because there's something important about owning home equity.

And the IRA home investment proposal is uncomplicated. I had a chance to view what in Hawaii is called the individual housing account and found it to be a complicated program not well used. It simply is not going to be beneficial to the goals of the committee to have complicated home investment provisions within the IRA.

I have two suggestions regarding the concept papers, however. One is to increase the proposed \$10,000 limitation per IRA perhaps to \$25,000 or \$30,000 for the specific reason being that then the IRA funds could not only be used for downpayments but young families, because they tend to be in the lower income brackets and therefore they can make fully deductible contributions to their IRA's, can use following year contributions to the IRA to further increase their equity by reducing their mortgage on perhaps an accelerated basis.

My second suggestion addresses the question you raised about senior housing. We have in this country a very serious problem about asset rich and cash poor families. Why not allow family members who have an IRA to invest in the equity of their parents' home, acquiring equity over a period of time, thus giving parents the cash they need to exist and taking an equity interest back into the IRA, avoiding all the potentially serious problems that reverse mortgages introduce.

I appreciate this opportunity to appear before this subcommittee. I was in Hawaii at 8 o'clock last night and I'm delighted to be here now for the committee meeting. I appreciate the invitation and I would be glad to answer any questions.

[The complete prepared statement of Mr. Klose follows:]

Senator D'AMATO. You left Hawaii last night?

Mr. KLOSE. At 8 o'clock, yes, sir.

Senator D'AMATO. That's dedication.

Mr. KLOSE. It's an important project.

Senator D'AMATO. Mr. Keyes.

STATEMENT OF LANGLEY C. KEYES, PROFESSOR OF URBAN STUDIES AND PLANNING, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Mr. KEYES. Thank you, Senator D'Amato.

I appreciate the opportunity to participate in the hearings, even though I missed my panel and it is a great pleasure, however, to be a member of the groups that's speaking for the private sector.

My name is Langley Keyes. I'm a professor in the Department of Urban Studies and Planning at the Massachusetts Institute of Technology. I'm honored to have the opportunity to comment today on the staff concept papers directed at the crafting of a National Affordable Housing Act.

I particularly welcome this opportunity because I view it as a culmination of over a year of activity on my part and that of my colleague, Professor Denise DiPasquale, in directing the MIT Housing Policy Project, a series of 20 papers funded by the Ford, Johnson and Fannie Mae Foundations and Freddie Mac. Written by practical researchers with considerable knowledge of the housing field, as we said in our funding proposal, the papers bring together the "state of the art on the set of issues which would lie at the heart of any reconsideration of national housing policy."

FIVE CRITICAL ISSUES

In the paper in the series which Denise and I wrote together to frame our view of current policy considerations, we relied heavily not only on the work of our colleagues but also the history of national housing policy during the last two decades, particularly the reports of President Johnson's Committee on Urban Housing; President Reagan's Commission on Housing; and the National Housing Task Force called together last year by the leadership of your committee. In the paper we argue that there are five critical issues which represent the major points of tension to be resolved in the formulation of any new national housing policy by this committee. First, targeting; second, the role of the existing stock; third, institution building and program design; fourth, public partnership; and finally, the role of the Department of Housing and Urban Development.

I want to expand briefly on each of these issues and to make a judgment as to the extent to which the staff concept papers deal with them.

First, the targeting issue is essentially a question of whom shall benefit from scarce Federal housing resources. At face value, it is difficult to argue with the view that those funds should be allocated to the most needy in society. However, the realities of the housing market and program implementation suggest that this view may be too simplistic.

Experience suggests that very narrowly targeted programs are difficult to implement, run the risk of excluding deserving households, and isolate the poor.

Finally, history indicates that housing legislation targeted only at the very poor generates a weak and vulnerable political constituency.

The proposed Affordable Housing Act recognizes the importance of a broad targeting strategy. While the percentages need to be filled in a number of places to indicate how high up the income scale eligibility goes, the general approach seems to be one of concern for the low income, while, as Senator Cranston pointed out in his speech to the National Housing Conference, ensuring that moderate income families who would not otherwise be able to afford adequate housing also can participate.

We identified the role of the existing housing stock as one of a shifting paradigm where issues of housing adequacy and affordability, the key themes of the earlier commission reports, have been replaced by a growing awareness that the issue of housing availability was becoming a critical concern. The existing stock, public and private, is perceived as a valuable resource becoming an endangered species. The staff concept papers make a strong statement about this emerging phenomenon. The act's concern for preservation of affordable subsidized housing and the creation within HUD of an Office of Affordable Housing Preservation constitute welcome recognition of the need for the Federal Government to take a lead role in dealing with the issue.

INSTITUTIONAL STRUCTURE

In our discussion of institution building and program design, we argued that there is a central challenge to design national housing programs which develop the institutional mechanisms most effective in dealing with local housing markets. The best of the current State and nonprofit programs represent an opportunity for Federal initiatives to interact synergistically with local institutions throughout the country.

With its emphasis on local initiatives, State plans and creativity, the concept papers develop the kind of institutional structure we envisaged. There is a need, however, to pull together in a more comprehensive way the various planning elements in the Act—the HOP, the CHAP, the plan for rental credit.

In our section on public partnership we discussed the need for coordination, particularly that between housing and services, where such coordination has been a long-standing concern in which good intentions have generally outdistanced results. The various sections on the elderly, the handicapped, the homeless, and families with small children need to be streamlined. However, the concept paper approach represents a detailed legislative effort to pull services and housing together and, as such, is a welcome and long-needed Federal initiative.

We argue in our paper that focusing serious Federal attention on the four issues outlined above leads one inevitably to an expanded and strengthened role for HUD. The concept papers provide HUD with a series of new "hot spots" and put the agency in the lead role

which an outreaching Federal policy requires. One can argue about the relative merits of assistant secretaries versus corporations and the specific functions of newly created centers in HUD, but not about the need to put new institutional strength into the agency if it is to carry out the functions prescribed for it in the concept papers.

The five themes that we have examined in our paper presuppose a Federal housing policy world which looks much like that articulated in the concept papers. What is critical is the emergence of a Federal commitment to building a housing delivery system which can be expanded when, if, and as resources for housing become available. That system must deal with enhancing the institutional framework within which low-income housing is preserved; targeting resources in the most leveraged way; carrying out programmatic initiatives that enhance local institutional development; and coordinating housing efforts with tax and social service policies. Energizing that system requires a reinvigorated Department of Housing and Urban Development; its mandate to lead the Federal engagement in housing made explicit; its sense of public entrepreneurship in an era of budgetary austerity enhanced. These are ambitious aspirations, but moving aggressively toward the goals of the 1949 Housing Act—that decent home and suitable living environment for all Americans—calls for no less.

Thank you and I would welcome any questions which you might have about this general overview.

[The complete prepared statement of Mr. Keyes follows:]

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UNITED STATES SENATE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

HEARINGS ON THE NATIONAL AFFORDABLE HOUSING ACT

SEPTEMBER 14, 1988

COMMENTS BY

MR. EDWIN A. KLOSE
PRESIDENT
KLOSE ASSOCIATES NETWORK, INC.
CARMEL, CALIFORNIA

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE -

I strongly agree with your view that there is a need for a new national housing policy and that the time is right for new legislation establishing the framework for a federal housing policy for the 1990's and beyond. The Report of the National Housing Task Force, "A Decent Place To Live", and other surveys point out current trends which should be reversed so that the American Dream of homeownership and/or affordable housing is again an attainable goal for all segments of our society.

KLOSE ASSOCIATES NETWORK, INC.

The Staff Concept Papers for THE NATIONAL AFFORDABLE HOUSING ACT detail three major components of the ACT - HOMEOWNERSHIP, RENTAL HOUSING and SPECIAL NEEDS -- SUPPORTIVE HOUSING - and I appreciate this opportunity to testify regarding the legislative implications of these proposals.

My professional experience over the last 30 years has been heavily involved in the pension field and I have exclusively concentrated in Individual Retirement Accounts area since their Congressional birth in 1974. Accordingly, I will confine my comments to the HOMEOWNERSHIP portion of the ACT and its IRA provisions where my experiences may be of more value to the Subcommittee.

The National Affordable Housing Act component on HOMEOWNERSHIP AFFORDABILITY with the IRA provisions as proposed present an excellent and fair initial proposal to make available for Home Investment, a portion of the estimated \$300 Billion of long term investment capital now held in the IRA Accounts of consumers.

While I would generally favor fewer or no limitations, the issue of fairness, which I believe the included proposal addresses quite well, should be overriding at the outset of considering certain exceptions to the prohibited transaction rules of the IRA.

The most significant contribution the proposed IRA rule changes make are to permit the Home investments to be made WITHIN the IRA so that they do not require offsets as would be required under the Gramm-Rudman-Hollings Act, which offsets might be difficult to develop and would delay the implementation of these important Home Investment proposals.

In reviewing the proposals of the ACT with regard to IRAs and 401(k) Plans, I was looking specifically for provisions or requirements placed on individuals who owned the IRA or on the financial institutions which acted

as custodian or trustee which might restrict the use or administration of these investments within IRAs, thus frustrating one of the goals of the ACT.

The State of Hawaii has had since 1981 a state provision for an individual housing (savings) account the goal of which was similar to parts of the IRA proposals of the proposed ACT. Regretfully, there are so many complications placed on the prospective user and the financial institution stakeholder that the program is not being used. Indeed, it is so little used that one even has difficulty finding out how much savings are even in the program which apparently only one financial institution in Hawaii even services. This experience in Hawaii has not been a success and should serve as a lesson for the present ACT proposals to keep limitations simple if the program is to be effective. I believe the present proposed rules of the ACT will not restrict broad use.

The proposed ACT avoids the Hawaii structure which, if followed, would probably also face Gramm-Rudman-Hollings constraints.

I was also concerned about the cost to the consumers who might want to utilize the IRA funds for the first-time home purchase or home purchase if they were not a home owner during the previous three years. Again I am satisfied from conversations with financial institutions that the initial and annual cost to administer this program would not be out of line with other non-insured investments.

The forms HOMEOWNERSHIP investments could take, therefore, are within the ability of a financial institution (bank, thrift or credit union) to administer because they could be handled in a manner similar to the type of support used for other non-insured IRA investments.

The Subcommittee proposal with regard to lower FHA DOWNPAYMENT REQUIREMENTS is certainly welcomed and will go a long way to satisfy the first-time home buyer's ability to see a home investment in the near future rather than at some dim and distant point.

I believe the FHA proposals will also underscore the Commitment at the Federal level to this program which should overcome any reluctance financial institutions might have.

According to the recent national survey taken for the International Association of Financial Planners, the number one financial goal of Americans is to SAVE FOR RETIREMENT which probably accounts for the popularity of the IRA among consumers.

And these consumers must prudently invest these savings once the funds are within the IRA. Consumers have a wide variety of investment options for these funds but perhaps the most prudent of all investments - the purchase of the individual's own home - is not possible at present because of the prohibited transaction rules of the IRA. I believe this is an oversight which the proposed NATIONAL AFFORDABLE HOUSING ACT will properly correct.

Limitations have been proposed within the ACT for fairness and to avoid possible misuse of these provisions and these provisions have my full support at this time.

I commend the Subcommittee and the fine work of its staff and thank you again for the privilege of permitting me to provide you with my comments.

TESTIMONY OF LANGLEY C. KEYES

Mr. Chairman, and members of the Subcommittee, my name is Langley Keyes. I am a professor in the Department of Urban Studies and Planning at the Massachusetts Institute of Technology. I am honored to have the opportunity to comment today on the Staff Concept Papers directed at the crafting of a National Affordable Housing Act. I particularly welcome this opportunity because I view it as the culmination of over a year of activity on my part and that of my colleague, Professor Denise DiPasquale, in directing the MIT Housing Policy Project: a series of 20 papers funded by Ford, Johnson and Fannie Mae Foundations and Freddie Mac. Written by practical researchers with considerable knowledge of the housing field, as we said in our funding proposal, the papers bring together the "state of the art on the set of issues which would lie at the heart of any reconsideration of national housing policy".

In the paper in the series which Denise and I wrote together to frame our view of current policy considerations, we relied heavily not only on the work of our colleagues but also the history of national housing policy, particularly that of the last two decades. The historical context is provided in large part by the reports of President Johnson's Committee on Urban Housing in 1968; President Reagan's Commission on Housing in 1982 and the National Housing Task Force called together last year by the leadership of your committee. In the paper we argue that there are five critical issues which represent the major points of tension to be resolved in the formulation of any new national housing policy by this committee. The five we identified are 1. targeting 2. the role of the existing stock 3. institution building and program design 4. public partnership, 5. the role of the Department of Housing and Urban Development.

In the time allotted to me, I want to expand on each of these issues and make a judgment as to how successfully the Staff Concept Papers deal with these five areas of concern. (1) The targeting issue is essentially the question of whom shall benefit from scarce federal housing resources. At face value it is difficult to argue with the view that those funds should be allocated to the most needy in our society. However the realities of housing markets, program implementation and politics suggest that this view may be too simplistic.

The targeting issue is not as clear as it might appear at first glance. First, the narrow definition of the possible target population seems inappropriate given the level of subsidies being provided through the homeowner deductions. Even if we accept a narrow definition of the target population, the wisdom of an inflexible, very specifically targeted program must be questioned. The complexity of the housing market, given the interrelationships among the various submarkets, suggests that a broader look at that market is critical to any targeting policy. Furthermore, on the supply side, there are benefits to mixed-

income housing that should be considered. Program experience suggests that very narrowly targeted programs are difficult to implement, run the risk of excluding deserving households and isolate the poor. Finally, history indicates that housing legislation targeted at the very poor generates a weak and vulnerable political constituency.

The proposed Affordable Housing Act recognizes the importance of a broad targeting strategy. While the percentages need to be filled in a number of places to indicate how high up the income scale eligibility goes, the general approach seems to be one of concern for the low income, while, as Senator Cranston pointed out in his speech to the National Housing Conference, moderate income families who would not otherwise be able to afford adequate housing should also be able to participate.

(2) We identified the role of the existing housing stock as one of a shifting paradigm where issues of housing adequacy and affordability, the key themes of the earlier commission reports, have been replaced by a growing awareness that the issue of housing availability was becoming a critical concern. The existing stock public and private, is perceived as an increasingly scarce commodity for low income renters, a valuable resource becoming an endangered species. The Staff Concept Papers make a strong statement about this emerging phenomenon and recommend precise ways of dealing with expiring use restrictions. The Act's concern for preservation of affordable subsidized housing and the creation within HUD of an Office of Affordable Housing Preservation constitute welcome recognition of the need for the federal government to take a lead role in such preservation.

(3) In our discussion of institution building and program design we argued that the tension between local and national needs seems to have been effectively resolved in terms of housing finance. The federal government has played a central role in building institutions to create a national mortgage market where once there was a collection of local markets. That tension is still central at the programmatic level: how to design national housing programs which develop the institutional mechanisms most effective in dealing with local housing markets. The best of the current state and nonprofit programs represent an opportunity for federal initiatives to interact synergistically with local institutions throughout the country so that national housing goals can be achieved using them as the primary delivery systems.

With its emphasis on local initiatives, state plans and state creativity, the Concept Papers for the Affordable Housing Act develop the kind of institutional structure we envisaged. While there is a need to pull together in a more comprehensive way the various planning elements in the Act (the HOP, the CHAP, the plan for rental credit) the concern to use federal leadership to enhance state and local initiatives is clearly projected.

(4) In our section on public partnership we discussed the need for coordination particularly that between housing and services, where such coordination has been a long standing concern in which good intentions have generally outdistanced results. The concept papers present a dramatic model of supportive housing for special needs. While one can argue that the various sections on the elderly, the handicapped, the homeless, and families with small children can be streamlined, the Concept Paper approach represents a detailed legislative effort to pull services and housing together and as such is a welcome and long needed Federal initiative.

(5) We argue in our paper that focusing serious Federal attention on the four issues outlined above leads one inevitably to an expanded and strengthened role for HUD. The Concept Papers provide HUD with a series of new "hot spots" and put the agency in the lead role which an outreaching federal policy requires. One can argue about the relative merits of assistant secretaries vs. corporations and the specific functions of newly creative centers in HUD but not about the need to put new institutional strength into the agency if it is to carry out the function prescribed for it in the Concept Papers.

In summary the themes that we examine in our paper presuppose a federal housing approach much like that articulated in the Staff Concept Papers. While others will comment more specifically about aspects of the Concept Papers, I want to underscore the extent to which they represent the kind of legislative effort Denise and I had in mind when we wrote our paper framing the major issues with which housing legislation would have to deal.

In 1949, the goal of a decent home and a suitable living environment for every American was set forth in national legislation. Today, no thoughtful observer of American housing would argue that we have reached the aspiration of 1949. But in the years since the declaration of intent was made, very different views have been expressed as to the magnitude of the distance between the nation's housing and the goal expressed in 1949.

The Kaiser Committee not only took the goal seriously but also embraced the central role of the federal government -- its resources and its programs--in reaching that goal. It gave HUD a central role in running the massive Washington-based initiative. Fifteen years later, the President's Commission was impressed by how far the nation had moved toward the goal and worked creatively to reduce the federal role while extending that of the private market in making up the remaining difference.

1968 looks to have been the high water mark of federal commitment of resources to housing and reflective of another era. Yet, the minimal federal role articulated in 1982 seems equally dated in today's world of homelessness, expiring use

restrictions, and a declining percentage of young homebuyers. The recent report of the National Housing Task Force reflects the tenor of the times in that it paints a picture of serious federal leadership in the nation's housing policy while recognizing that budgetary and political realities as well as the changing nature of program sponsorship at the local level preclude a return to the model of the 1960s.

The five themes that we examined in this paper presuppose a federal housing policy world which looks much like that articulated in the Concept Papers. What is critical is the emergence of a federal commitment to building a housing delivery system which can be expanded when, if, and as resources for housing become available. That system must deal with enhancing the institutional framework within which low-income housing is preserved; targeting resources in the most leveraged way; carrying out programmatic initiatives that enhance institutional development; and coordinating housing efforts with tax and social service policies. Energizing that system requires a reinvigorated Department of Housing and Urban Development; its mandate to lead the federal engagement in housing made explicit; its sense of public entrepreneurship in an era of budgetary austerity enhanced. These are ambitious aspirations for an agency that has been asked to preside over its own disengagement. But moving aggressively toward the goals of the 1949 Housing Act--that decent home and suitable living environment for all Americans--calls for no less.

Senator D'AMATO. Professor Keyes, let me thank you for your leadership with the task force and let me also say that I wish we could commend to my colleagues your statement—I do commend it to them, as it relates to the realistic problems as it relates to oversimplification.

I have problems with those who claim to be these great conservatives and consequently they say everything has to be targeted just to the poor. In essence, then we kill any opportunity, as you have so eloquently put, to do anything because we find development of housing for the poor never takes place; the huge number and the large masses of working families are totally left out; and we get nothing done as a practical matter. That's what's taking place.

I think we should run a course—maybe you could run a course for us and get some of my colleagues, and I would be first to say that I need to attend. Of course, I don't know whether we could get too many of them to attend, but you've done a terrific job and we appreciate it.

Mr. KEYES. I appreciate the kind words, Senator.

Senator D'AMATO. Mr. Lacy, here you are in this den. You have Shane over here and he's not afraid to stand up for you and Mr. Gourley is going to take him on as to who's older and we'll decide that privately.

EXPAND HOMEOWNERSHIP OPPORTUNITIES

Mr. Lacy, tell me something. How would you attempt to expand homeownership opportunities, let's say, to first-time home buyers who live in a region where starter houses go at a minimum of \$150,000? That's a handyman's special starter house. You know what I mean? It used to be a bungalow 50 years ago and over a period of time it has been winterized and it has been built up and there may be a little extension here and there, and it is basically in need of repair and a family that is now looking to retire—husband and wife, an empty nester, a wife alone—and it is on a plot of land 40 by 100.

Now you don't consider that to be luxurious. And it's in a community where 54 percent of the people are low and moderate income. So it is not a question of people who sought out this luxurious place, because I've always had trouble with the concept of people, for example, who say, "I want to live here in a particular location in the metropolitan community," whether it be Garden City or the Upper East Side of Manhattan or Locust Valley. Heck, I would have liked to have lived in any one of those places. I just could not afford it.

But we are now talking about people moving into a community where 54 percent are low and moderate income. That's not too affluent.

Now that young family has an income—I'm going to tell you—of \$32,000. By standards of many of my colleagues here, we shouldn't do anything for them. What would you do?

Mr. LACY. Senator, the first thing is the downpayment. We have to help people find a way to accumulate that downpayment, whether they go FHA financing or conventional financing, 5 percent down for conventional high ratio loans, privately insured, the FHA

program does go to 97 percent and it's scaled differently, of course, but the downpayment is the issue as I see it and creating an accumulation vehicle, a tax-deferred mechanism to get them to have that downpayment so they can qualify.

I think the private sector can serve that need with financing, with available capital and credit enhancements, which can access secondary markets. But the issue of affordability becomes one of getting them in the home and then keeping them in the home. And keeping them in the home is a second issue. In terms of that kind of income level, servicing the debt is an issue for an FHA or a conventional loan.

Senator D'AMATO. It's a nonissue, isn't it?

Mr. LACY. No, it's a big issue. It's a big issue for all of us. You take someone with \$32,000 in income—

Senator D'AMATO. But my point is that that's going to be the same whether it be FHA or conventional.

Mr. LACY. It's the same issue. The point I was trying to make is the fact that if FHA is expanded on loan amount versus median income, which we think is a better way to do it, and gives greater flexibility across the Nation, we're going to lose some of the resource rather than getting the kind of attention we need at the margin, so to speak, and in the instance you just described that is the margin in that local community.

But clearly, the downpayment is the issue as I see it, getting people into the home is the issue.

Senator D'AMATO. That's part of the issue. OK. Let me—I can see Mr. Shane wants to say something. Am I reading your body language the right way?

Mr. SHANE. Yes.

Senator D'AMATO. We'll open it up to all of you, but I want you to think about this and I'm going to come back to you again. Why should my daughter be precluded from an FHA mortgage because we have an arbitrary limit of \$101,000 when the average selling price for homes in that little community that I talked to you about and the median is even well over \$150,000. I didn't tell you what the real cost of that house was because it would blow your mind. You'd say, "Impossible." I'm telling you that it was substantially more. Why should she be precluded from that FHA mortgage? Is there any purpose in that? And don't we have to be more realistic? Do you think these numbers as they relate to now are realistic dealing with areas in California and other urban areas, high-cost areas? Shouldn't there be a differential? Should we just simply say, well, because there's a downturn in the economy in Dallas now that we should use that as the guide where people can get homes at \$55,000 and \$70,000 and \$80,000, that formerly sold for a quarter of a million dollars. So think about that and we'll come back to you.

Mr. Shane.

Mr. SHANE. I want to go back to the original question and then answer your last portion.

I think the point that Mr. Lacy makes—and again, I want to associate with the concept of the long-term relationship with the borrower—is that you do nobody a service when you provide them with a home with a mortgage with payments that they can't afford

to make. You do nobody a service by putting them into a position to have a downpayment where the downpayment itself serves as a form of credit screening.

You do a great service if you target the group that you want to make that home available to and the level at which you want to do it. This then becomes the addressing of the social issue that I was talking about before.

The tragedy, Senator D'Amato, is that in the last decade and a little more, this country which had a magnificent housing policy—it wasn't uniform and it wasn't fair to all and it had its flaws, but compared to—like growing old, compared to the alternative, it was magnificent—the best in the world.

We drifted away from it. We didn't make a conscious decision. You in the U.S. Senate did not vote to eliminate the housing commitment of this country. What you did do is you were entrapped in a series of actions, including deregulation—in a series of actions which produced a result. The result is a diminution in housing stock. The result is a diminution in the availability. In fact, it's a diminution in the competition among those who build and sell and rent. Rather, it's now a competition among those who buy or want to buy.

When you get into that situation, you are unable to address without direct subsidy the case that you talked about. Where I live, the area that I come from, southern California, we have a median housing level now that's topped \$200,000. You are talking about an eligibility here of \$180,000 home. I suggest today, as I did the last time we had this discussion, that it may be that we want FHA to do that, but we have to discuss the mission of FHA. It's a drastic change from where we've been.

I hear here and I've heard elsewhere the discussion about the need to find a mechanism for the delivery of credit. Until 1979 and 1980, we had the world envied mechanism and I come from the largest part of that mechanism. What has happened is, again, in its infinite wisdom—and frankly, in its succumbing to clichés—the Congress of the United States and with a lot of support from a lot of quarters decided that specialization wasn't all that good and that regulation wasn't all that good and that maybe we ought to allow people to build windmill farms and things of that type with funds intended for housing.

I think the Congress of the United States is ready to reexamine the question and reaffirm a housing commitment and in doing that make a credit allocation decision—I used that term last time and everybody gasped—but to make a credit allocation decision in a multitrillion dollar arena, as differentiated from the need—and it's an affirmative need—to deal with multibillion—they're much smaller—bandaids and tourniquets. We must have those so that the poor and the less advantaged don't bleed to death in this arena, but I think we have to attack the fundamental issue which we've allowed to drift away from us.

Senator, I really hope that what you and Alan Cranston have undertaken in the affordability area will trigger the reexamination of the major housing issues. There is no one at this table that isn't prepared to participate and support a dialog which leads to a reaffirmation of the American dream. It's not going to happen by acci-

dent and it's not going to happen in little bits and pieces. It's going to happen when the trillions—that's with a "T"—when the trillions are recognized as having an effect on the life style of the people and we recommit ourselves—Republicans, Democrats, liberals, conservatives—we recommit ourselves to the needs of our children.

I was not being facetious when I referred to a statistic which we no longer use in business planning—the vacancy factor. Home builders looked at the vacancy factor, investors, my neighbor and my friend and for many years we have been working cooperatively—we look at the vacancy factor and there are a lot of houses available we don't build. We don't have that now. You don't have the stock. You don't have the ability to compete on the part of the buyer to be able to force a lower price and we don't have the commitment to the adequate credit.

I hope we reexamine the issue. Do not back away at all from the affordability issue. I'm not suggesting that. But use it as a point of entry into the bigger issue, because when you build 3 million or 2½ million or 2 million annual starts, you're going to be benefiting the people at the lower end of the spectrum. If you're at 1.5 million, you're going to have to subsidize a lot more people.

Senator D'AMATO. Mr. Stuard, you wanted to say something?

Mr. STUARD. Yes, Senator. I wanted just a moment to expand a little bit on my learned and much older friend, Mr. Shane's comments.

MANY DIFFERENT SIZE MARKETS

I think we have to recognize in this country that we are no longer in a national housing market. We are a country made up of many, many, many small markets, large markets, medium size markets. Each one has their own economic dynamics. And the days when we could set a fixed number for any type of a loan or any type of an entry level or any type of a maximum are long gone. We must recognize realities of the marketplace and put instruments in place that can adjust to these realities.

Second, I do think it is extremely important that we do deal with these young people who are on limited incomes in metropolitan areas. The fact of the matter is, if we do not deal with that, we're going to exacerbate the problems we're having with our roads and our highways and our infrastructure around this country because those people will have to go further and further away from their employment and we'll create traffic jams the likes of which we've never seen and which are occurring right now and we have to get away from that.

Senator D'AMATO. Well, thank you, Mr. Stuard. I'll come back to you, Mr. Lacy. Think about what Mr. Stuard said. You had an eloquent ally in Mr. Shane but I want him to be a little bit more specific about this trillions.

Mr. Gourley.

Mr. GOURLEY. Well, like Dale has just said, house prices differ all across the country. Indexing is a way to go at this, but from the change of costs and the reality of the fact that markets are so different.

I saw about as good an example recently in one of the places that Mr. Lacy would like to forget about right now, Anchorage, AK, which is really a terrible situation there with real estate prices. The prices are way down and there is a lot of real estate owned there now by lenders such as ourselves and by the private mortgage insurance companies and Fannie Mae. There's a real problem there, but that was an economic thing more than anything else. It didn't have to do with overlending. It was overlending in retrospect.

But I went from there down to the southern California area and I got into the area of these folks in Orange County and you look at the house prices there—it's a different world.

So as you travel around the country, there is no question about the fact that a high-cost house in Charlotte, NC, which is my home, may be a low-cost house in Westchester County or somewhere in New York or certainly in San Diego or this area of the country.

We have to recognize the difference in the markets throughout the country because we do have so many. And for first-time home buyers in those areas, the problem is as critical when their first opportunity to buy is a \$125,000 or a \$150,000 house and there's not a real market for those loans because they have a low downpayment. They need the FHA downpayment and they need the FHA look at the way they approach underwriting.

I'd like to take Mr. Shane to task. As a mortgage banker, Mr. Shane, I would like you to understand clearly I'm a small mortgage banker and I hardly rank in the top 100 in the country, but I service some \$2 billion in loans and represent 45,000 customers. We are in constant contact and concerned with not overlending. Underwriting and the quality control that goes with that through the FHA programs and all is very much a concern of ours because it is a long-term relationship. Though we in all cases don't own the loans, we are issuers of Ginnie Mae securities and, as such, we in effect are the owner of the loan because as an issuer we take the hit, such as was taken in Texas and Denver and Anchorage, we are the other end of the coin. So we are lenders to a lot of people and as mortgage bankers we have a vested interest in the success of lending and using good lending underwriting practices.

Senator D'AMATO. Mr. Klose, I want to get back to your comment as it related to the IRA's and the expansion. I found your comment as related to raising that limit to \$25,000 interesting and I've already spoken to staff about looking into that. I think it's very, very important.

I wonder if you've thought about the 401(k) plans also and how we could possibly get employers who administer them to offer participating employees the option of using those funds to make downpayments for a principal residence as well.

Mr. KLOSE. In principle, Senator, I agree with you that 401(k) plans and all employee contribution plans, including tax shelter annuity plans should be included in the financial solution to these problems.

Senator D'AMATO. There is a tremendous pool out there and there is quite a number of these young families who it would seem from your statistics who could take——

Mr. KLOSE. Your daughter who wants to buy a home and if you were able to make an investment in her family home, which I submit is a prudent investment, this would enable her and other family members to acquire an equity interest in the home and reduce substantially the dollars of interest that she will pay over the life of the loan. Bimonthly mortgages made dramatic impacts in terms of the reduction in interest paid to acquire a home and this proposal could be equally dramatic.

The use of IRA money could create a whole new mortgage document where there's perhaps a \$2,000 principal repayment each year plus interest on the unpaid balance of that debt. After a 10-year period, a consumer would acquire more equity at a lower cost than they would ever do under a loan program, with all due respect to loan programs. I think the FHA lower downpayment feature is an important feature and add tax shelter annuities to these permitted investment considerations. When teachers go into their teaching profession, they can set aside 10, 15 or 20 percent of their income in tax sheltered annuities [TSA's] which builds up very rapidly. Why not allow within the TSA a home investment which has more personality to it and less risk? Make it a permitted investment within TSA's as well as IRA's and 401(k) plans.

The Labor Department is proposing expanded investment options for retirement plans. Gold has been permitted within plans. Why not the home? You mentioned 401(k) plans. One of the problems we have which is a practical problem is that 401(k) plans and TSA's are normally administered by corporate officers and large corporate trustees. They tend to prefer to deal in pooled investments which are low cost to administer rather than individual investments which are high cost to administer. Most 401(k) plans, for example, don't even permit the use of individual common stock other than perhaps with the parent corporation. It's just too expensive to administer. If you get involved with an equity interest in a home, it becomes more difficult. I think these vested interests should be overcome.

PORTABILITY OF PENSION BENEFITS

At the present time, the House Ways and Means Committee is having hearings on the portability of pension benefits. Why not allow 401(k) assets to be partially portable? That is, partially portable to an IRA and then in the IRA program, which is administered by banks, S&L's and credit unions, which would allow these home investment programs. Then banks can deal individually with individual consumers. Let the funds transfer be made to an IRA and then allow the consumer to make that IRA home investment decision.

Senator D'AMATO. Mr. Klose, I want to thank you. And before turning back to Chairman Cranston, I know Mr. Shane wanted to say something, but let me say this. I would hope that we could get staff to meet with you and you might give them some additional information on this because I think it's certainly worth our while exploring this. You've opened up I think just tremendous possibilities in this area.

Mr. KLOSE. I agree. Once the American mind gets set to solve a problem, I think we can do it. Early in our country history homes weren't built with loans. They were built with hard work and equity.

Senator D'AMATO. Mr. Shane.

Mr. SHANE. Senator, what you just heard from Mr. Klose could very well be—I don't want to be presumptuous but I'm going to be anyway—could very well be the most significant thing that's been thrown out on the table in some detail today. In our written testimony which I didn't get into, we support the use of IRA's and 401(k)'s and so forth for equity purposes.

But let me give you an example of specifically how what he was talking about would work because we've worked it out in our shop and I've used it in the past in speeches and, frankly, it's fallen completely on deaf ears in the past here in Washington.

Senator D'AMATO. We've got a professor taking notes here, too and maybe we can get him back and get some more talent to do some of that research.

Mr. SHANE. Some of my best relatives went to MIT, so I guess we—

Senator D'AMATO. Langley, your work may not be done. You didn't know we'd get you into more.

Mr. KEYES. I'm writing as fast as I can.

Mr. SHANE. Senator, let me give you a specific example of the transaction that Mr. Klose described and how exciting it is. Please bear in mind that his comment before that it is revenue neutral is absolutely true. I'm not going to address that. He did and he did it very well.

But visualize—the number isn't important—visualize a young couple wanting to buy a home with a \$100,000 mortgage, a nice round number. And let's assume that they have an IRA going in of \$5,000. They're going to have more before they're ready to buy the house but let's assume it's \$5,000. And they're allowed to use just that \$5,000 and take a 95-percent loan and put it through a mortgage banker and we'll buy the loan from him so everybody will be happy.

But they wind up at that moment with their \$5,000 downpayment accumulated transferred into, as I said in my written testimony, being allowed to invest in their home because they're being allowed to invest in somebody else's home. Now they accumulate—let's use a loan number—\$2,000 a year on an IRA basis. They take the \$2,000 a year and reinvest it right back into their home and what is a \$95,000 principal now becomes \$93,000 principal and it will cost less interest. And the second year it's \$91,000 and the third year—all of this is additional capital that they are reinvesting back into their own home. Revenue neutral as far as the Government is concerned, putting them into an affordability position that today is absolutely unavailable to anybody. But if you run out the curve, if our academic friends or our mathematic friends or our staff friends will just do the graph—or we'll do it for you—we have a big research department at the U.S. League—you will find a source here that is mind boggling.

The problem has been, until your committee got started this last year—nobody would listen to that. Treasury shot us down every

time it was ever mentioned, never got to the second sentence. I say to you that Mr. Klose's suggestion or what those of us have been talking about for a long time is exciting and should be pounced upon as an important tourniquet. It's beyond a bandaid.

Senator D'AMATO. I want to thank you. And it is exciting. It really is. And I would hope that you would get the League and get Mr. Klose and get Professor Keyes and others and anyone else who sees fit to join in this effort—and the staff needs as much help as they can get—

Mr. SHANE. You'll have to cope with the Treasury Department. That's the only problem.

Senator D'AMATO. Well, I have to tell you—and I ask the chairman to bear with me on this, but I was rather frustrated—I think it was Senator Dodd and myself that led the effort to retain the IRA's in their old form because I thought it was the greatest way of capital formation, notwithstanding the little bureaucrats and the little minions at Treasury who just wanted more and more revenue, we have helped them defeat—we talk about lack of capital formation, lack of savings, and here we had just begun to educate working families, even families with good incomes about the benefits of savings, et cetera, and they turned this thing upsidedown and we're lucky to preserve the little that we did get. And I think it was just absolutely tragic and it may have given them an infusion of a couple of bucks there, but, boy, it's a sorry price that we pay. And imagine, we talk about that investment capital which would be free, but this still gives us an opportunity to reclaim a small but significant portion of those dollars and I would hope, with my good friend and colleague—and if anybody would have said that Cranston and D'Amato would be working together on this issue as we have 6 years ago, they would have said we're going to send both of you to the nuthouse, but maybe we're the odd couple, but really I think we can make some progress. I look forward to working with you. We can't do it alone. We're going to need industry and we're going to need the diverse sector that you all represent—the Realtors, the home builders, the mortgage bankers, the savings institutions, the academic—to put this all together.

Mr. KLOSE. Senator, you also spoke earlier of a special housing loan investment that would carry a below market rate of return. The IRA is an account which is owned by the participant and they can direct the investment IRA funds. The IRA owner can certainly—if you have an investment which is a desirable investment even though the return is below a market rate of return—direct that investment be used within the IRA program. IRA investments need not provide a market rate of return.

Senator D'AMATO. I want to thank you all and turn it over the Chairman Cranston.

Senator CRANSTON. Thank you very much, Al. You may be surprised sometimes even by our partnership. I am not because we've collaborated on matters as diverse as Panama and securities questions and now on housing. We certainly have a fine partnership and I thank all the other people here who have contributed to it.

Many of the questions that I intended to ask have been dealt with already during my absence or at other times during the morning. There are a couple of things I would like to ask.

Whoever feels like answering the question, do so, and then if there are other comments or differences to express, please do that.

Some have claimed that past Federal housing policy has essentially been a series of failures one after another: One program after another found wanting and shut down or seriously undercut.

PAST HOUSING POLICY ASSESSMENT

In what ways is that a fair or an unfair assessment of housing policy? What are the most notable legacies of past Federal housing policy on which the new Federal housing policy can develop? Mr. Gourley?

Mr. GOURLEY. Well, I think that certainly the homeownership programs have been very successful, but there have been a few failures along the way. But if you look at the program probably that has been the best marriage in the Federal Government programs, it's Ginnie Mae. And as I see in looking at Ginnie Mae as a part of the home program under the national housing policy, Ginnie Mae with the marriage of FHA, VA, the lender institutions that are part of it, set the stage for the securities markets that now exist for conventional mortgages. It is the thing that has opened up so many other types of investments. It's what the Government has been all about. It's finding new ways to do business and this, to me, has been the most exciting thing.

Senator CRANSTON. Any other comments?

Mr. SHANE. Well, I think the basic issue, in answer to your question, is that we've had sensational successes, not failures. The biggest failures that we've had—and I put that in quotes—have been when we've tried to use programs for purposes for which they were not intended, where we've tried to expand programs into some specialized area and sometimes because some political figure wanted it expanded. But the fact of the matter is, that this country has had an almost unparalleled, until the last couple of years of external force problems—has an unparalleled success story, particularly in homeownership. As my associate said, we went into 1933 with 33½ percent homeownership to 1980 with 66 percent and we were counting the small farmer in 1933 and we didn't have any small farmers left in 1980.

Until we started playing games with successful programs and trying to fix what wasn't broke and didn't recognize, by the way, the tragedies of Texas and Oklahoma as being unrelated to the system—they were from something else—we had the successes. As I tried to point out before, we have the ability to deal with all of the programs. We have the systems in place. We have the machinery there. We have the people in all the States who are mortgage bankers and mortgage brokers and savings and loans and builders and every discipline that's represented at this table. They are in place.

The problem is that artificial constraints and so-called opening of doors and the real start of it was when the Congress was unable or unwilling to act on the money market mutual fund outside of the scope of the insured deposits—that's what triggered most of what happened later—you have all of the machinery in place. You have to use it. I hope the Government programs that you're going to be

putting through from your committee will be administered by the private sector which is ready to do it and we'll be your watchdogs.

Senator CRANSTON. Thank you. Any other comments?

LOAN LIMITS

Mr. LACY. Yes, Senator. I would comment on the issue of the loan limits and maximum loan limits. Tying program eligibilities to sales prices can lead to problems. That was my point earlier. Target the FHA to the people. Deal with their income level. Deal with their downpayment, as we've discussed, and now talk about getting them in there and keeping them in there. When you start talking about incomes, now you're talking about whether they need assistance and whether they can pay back their mortgage every month. You have the general rule of $2\frac{1}{2}$ or 3 times income for loan amounts to set eligibility. We talked about Anchorage, AK here a moment ago and I was there 2 weeks ago and it wasn't just economics that brought on the problem; it was overbuilding. There were huge amounts of Government money brought in, tied to loan limits. When it was actually announced that the loan could go to but not go over \$80,000, for example, in the condominium sector; overnight we had condominium prices go to \$80,000 because that's where the money was. That's where the subsidy was. It went from \$60,000 to \$80,000 and did this help affordability?

So I just strongly recommend that we target FHA to people, deal with their income levels and that will give us the flexibility to deal with high cost national markets. Actually when you deal with sales prices of homes, they go up and they go down and they move so rapidly in today's world due to dramatic regional changes. Tying FHA eligibility to the property, home price, is more volatile than changes in incomes. It causes home prices to change and is not the way to go.

Senator CRANSTON. Thank you very much. Mr. Connors and then Mr. Stuard.

Mr. CONNORS. Yes. I'd like to associate myself with the eloquent remarks of Mr. Shane regarding the existing stock earlier, the point that we need to focus on creating the necessary stock so that we don't find ourselves in the problem that Senator D'Amato's daughter finds herself. The artificial constraints that have created that problem and reduced existing stock have created that kind of problem over and over again in many parts of the country and from the standpoint of the manufacturing housing industry we feel it's important to focus on the opportunities that that industry affords this country for lower income buyers.

Senator CRANSTON. Dale.

Mr. STUARD. Just briefly, Senator, it hasn't been mentioned yet, but I think it's been proven very, very often that tax credits is the best way of getting housing on the market and the most cost-effective to the government and we need those back badly again, particularly in the multifamily sector with respect to the low income and moderate income side.

Mr. KLOSE. Just very briefly, if I could, Senator, notwithstanding my feelings about the IRAs, which happen to be very, very strong—I come from the trust department of a bank so you know

my conservative background. I believe that the IRA proposal ought to be part of a total housing solution which deals also with the rental problem as well as special needs. The IRA solution is one part of the solution but it can very early begin to create momentum which I think will help put some light on the other programs.

Senator CRANSTON. Thank you.

I'd like to ask you to respond to my last question in writing if you would so you can take a little bit more time to think about it.

How can the initiatives in the concept papers be strengthened to make homeownership affordability more available for first-time home buyers? That's obviously a key question. If you would take a look at the concept papers in relation to that question and respond in writing, I'd appreciate it very much.

I have no more questions. I want to thank you all very much for your very, very constructive and creative assistance to us.

Al, do you have any?

Senator D'AMATO. I join in your thanks, Mr. Chairman.

Senator CRANSTON. Thank you very much. We have another hearing scheduled soon. Thank you very much.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

NATIONAL AFFORDABLE HOUSING ACT

WEDNESDAY, SEPTEMBER 21, 1988

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 9:35 a.m. in room SD-538 of the Senate Dirksen Office Building, Senator Alan Cranston (chairman of the subcommittee) presiding.

Present: Senators Cranston, Graham, and D'Amato.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. The hearing will come to order.

I welcome everyone here today. This morning's hearing is the second in a series of four hearings in which the subcommittee will receive recommendations for drafting the National Affordable Housing Act.

I see these hearings as a key milestone in the effort that Senator D'Amato and I started 20 months ago when together we assumed the leadership of this Senate Housing Subcommittee. Our goal is to shape a new national housing policy that will meet the country's urgent need for decent and affordable housing for the remainder of this century.

We want the policy to draw on the best thinking of the housing experts from around the country. We want to develop a housing policy and a powerful consensus about what the country should be doing.

We have invited the help of everyone who cares about the quality of housing for all Americans. The response to the initiative has been exciting. It has been encouraging beyond our highest expectations. Virtually every major housing organization has assisted with enthusiasm. Sound recommendations have come from every region of the country.

There is broad agreement that affordable housing must move back up highly on the national agenda. The time has come to refine the recommendations with specific legislation that can move on a fast track early in a new Congress with a new President.

I asked the Housing Subcommittee staff to begin by developing preliminary concept papers that describe elements of a National Affordable Housing Act. I wanted the concept papers to be detailed so suggestions can be specific, and I wanted the concept papers to be widely distributed so that many can continue to participate in taking the legislation that has been done.

Many viable recommendations have already been received. We look forward to receiving many others during these hearings.

We have made an excellent start toward this legislation. Yet much remains to be done. Many ideas in the concept papers need to be refined, some need to be reformulated, and time is short.

Senator D'Amato and I intend to present draft legislation to the President-elect, whoever that turns out to be, as soon as possible after election day. We intend to work with the President-elect in drafting major housing legislation that can be introduced as a joint product of Congress and the new administration very early next year. I believe we have every reason to be very encouraged.

As we begin this hearing, I want to give a strong admonition: We must not think that effective new housing policy will be achieved without a determined struggle by all those who care about decent and affordable housing in America. The environment in Congress will not be entirely hospitable. The budget pressures will be intense. There will be strong, articulate opposition from those that believe that affordable housing can be left to the free play of the market forces. Those of us who know of the importance of adequate Federal support for housing will have to pull together.

We will disagree on some issues; for example, some would want assistance provided through State government, others would want the assistance provided directly through local government. There will be other differences in approaches.

I am convinced that, by working together, we can develop a good bill that accommodates those differences and that can improve housing for all Americans.

We are honored to have an outstanding group of witnesses again this morning. Our first panel represents views of State governments. The second panel will provide views from the perspective of local governments. I believe the new housing policy should forge new partnerships in which State and local governments will play increasingly bigger and more vigorous roles.

I look forward with great anticipation to the testimony this morning. I thank you all for joining us. Many organizations have asked to testify in these hearings. Since we have tried to accommodate as many as possible, we have a very full schedule.

So, I will ask each witness to summarize your testimony within 5 minutes—and we will have lights here giving a green light at the beginning and a yellow light when approaching the end and a red light when your time is expired—so we will have sufficient time for questions.

The full statements that most of you have prepared will go in the record as if read at this time, and I will turn to my partner, Senator D'Amato.

[The prepared statements of Senators Cranston, Riegle, and Sasser follow:]

September 21, 1988

OPENING STATEMENT OF SENATOR ALAN CRANSTON
HEARING ON THE NATIONAL AFFORDABLE HOUSING ACT

I want to welcome everyone here today. This morning's hearing is the second in a series of four hearings in which the Subcommittee will receive recommendations for drafting the National Affordable Housing Act.

I see these hearings as a key milestone in an effort that Senator Al D'Amato and I started twenty months ago when we together assumed leadership of the Senate Housing Subcommittee. Our goal is to shape a new national housing policy that will meet the country's urgent need for decent, affordable housing for the remainder of this century.

We wanted that new housing policy to draw on the best thinking of housing experts from around the country. We wanted to build that housing policy on a powerful consensus about what the country should be doing. We invited the help of everyone who cares about the quality housing for all Americans.

The response to our initiative has been exciting. It has been encouraging beyond our highest expectations. Virtually every major housing organization has

assisted with enthusiasm. Sound recommendations have come from every region of the country. There is broad agreement that affordable housing must move back up on the national agenda.

The time has come to refine those recommendations into specific legislation that can move on a fast track early in a new Congress with a new President.

I asked the Housing Subcommittee Staff to begin by developing preliminary concept papers that describe elements of a National Affordable Housing Act. I wanted the concept papers to be detailed so that suggestions could be specific. And I wanted the concept papers to be widely distributed so that many can continue to participate in shaping the legislation. That has been done.

Many valuable recommendations have already been received. I look forward to receiving many others during these hearings.

We have made an excellent start toward a landmark piece of legislation. But much remains to be done. Many ideas in the concept papers need to be refined. Some need to be reformulated. And time is short. Senator D'Amato and I intend to present draft legislation to the President-elect as soon as possible after election day. We intend to work with the President-elect in drafting major housing legislation that can be introduced as a joint product

of Congress and the new Administration early next year.

I believe we have every reason to be very encouraged.

But, as we begin this hearing, I want to give a strong admonition: we must not think that an effective, new housing policy will be achieved without a determined struggle by all those who care about decent, affordable housing in America.

The environment in Congress will be hostile. The budget pressures will be intense. And there will be strong, articulate opposition from those who believe that affordable housing can be left to the free play of market forces.

Those of us who know the importance of adequate federal support for housing will have to pull together. Of course, we will disagree on some issues. For example, some will want federal housing assistance provided through state government, others will want the assistance provided directly through local government. There will be other differences in approach.

I am convinced that, by working together, we can develop a good bill that accommodates those differences and that can improve the housing for all Americans.

We are honored to have an outstanding group of witnesses this morning. Our first panel of witnesses represents views of state governments. The second panel will provide views from the perspective of local government. I believe the new housing policy should forge new partnerships in which state and local governments will play an increasingly vigorous role, so I look forward with great anticipation to the testimony this morning.

I thank you all for joining us.

Many organizations have asked to testify in these hearings. Since we've tried to accommodate as many as possible, we have a very full schedule. I ask each of you to summarize your testimony within five minutes so that we will have sufficient time for questions.

OPENING STATEMENT OF SENATOR DONALD W. RIEGLE, JR.,
SEPTEMBER 21, 1988

Senator RIEGLE. Mr. Chairman. I want to take this opportunity to compliment you on the work that you and Senator D'Amato have done to place housing issues back on the national agenda and to develop a rational discussion on a national housing policy. It is a discussion that is long overdue.

As we all know, the United States is in one the longest peace time expansions in our Nation's history. Unemployment is at its lowest point in many years, the trade deficit seems to be declining, and inflation is under control. Yet, despite this, many Americans are not sharing in the gains of the current economic recovery. The rise in the homeless population, the decline in homeownership rates, and the increasing number of people who work but are unable to find affordable housing are evidence of this fact.

One of the principal reasons for the difficulties facing first time home buyers is that home prices are rising faster than incomes. The cost of buying a house has gone up 106 percent in the last decade while the median family income has increased by 97 percent and this rise in median family data includes situations where two adults are working. The average cost of new and existing homes rose to \$108,000 last year—up 17 percent from the year before. In addition, rents have been rising faster than inflation which in turn siphons off savings which could otherwise be used for a downpayment.

It is imperative that Congress examine and address our Nation's housing affordability crisis. One way we can begin to address this problem is to extend the sunset on the Mortgage Revenue Bond Program. This tax exempt, private purpose bond program has successfully and efficiently enabled States to maintain first time home buyer programs. I am the author of such an extension, and it has been included as part of the technical corrections tax bill developed by the Senate Finance Committee.

In addition, I believe our hearings on the National Affordable Housing Act will also provide this committee with an important foundation upon which to build and develop major housing legislation in the next Congress.

I look forward to working with you and other members of this committee in developing such legislation.

Thank you, Mr. Chairman.

STATEMENT OF SENATOR JIM SASSER, SENATE HOUSING SUBCOMMITTEE,
SEPTEMBER 21, 1988

MR. CHAIRMAN, I AM PLEASED THAT THE SUBCOMMITTEE IS CONTINUING ITS REVIEW OF THE CONCEPT PAPERS THAT HAVE BEEN PREPARED BY THE STAFF. I AM HOPEFUL THAT WE CAN BEGIN ACTUAL DRAFTING OF THE NATIONAL AFFORDABLE HOUSING ACT AFTER WE CONCLUDE THIS SERIES OF HEARINGS.

FURTHER, MR. CHAIRMAN, I WANT TO AGAIN COMPLEMENT YOU AND THE DISTINGUISHED RANKING MEMBER OF THE SUBCOMMITTEE, SENATOR D'AMATO, ON YOUR COMMITMENT TO HOUSING, PARTICULARLY AFFORDABLE HOUSING. WE FACE A HOUSING CRISIS, BUT I AM CONFIDENT THAT WE CAN MAKE A SOLID EFFORT TO MEET THIS CRISIS UNDER YOUR LEADERSHIP.

AS YOU KNOW, MR. CHAIRMAN, I HAVE BEEN PARTICULARLY INTERESTED IN THE HOMEOWNERSHIP COMPONENT OF THE AFFORDABLE

HOUSING ISSUE. THERE HAS BEEN A STEADY DEGENERATION OVER THE PAST 7 YEARS OF WHAT HAS BEEN A STAPLE FOR THE AMERICAN MIDDLE CLASS -- THE GOAL OF OWNING ONE'S OWN HOME.

BUT I AM THE FIRST TO RECOGNIZE THAT THE CRISIS EXTENDS FAR BEYOND THAT. ACCORDING TO THE NATIONAL ACADEMY OF SCIENCES, ON ANY GIVEN NIGHT IN AMERICA THERE ARE 100,000 HOMELESS CHILDREN ON THE STREETS.

AND I AM NOT TALKING ABOUT RUNAWAYS. ACCORDING TO THE ACADEMY, THIS IS THE FASTEST GROWING GROUP OF HOMELESS -- FAMILIES WITH CHILDREN UNDER 18 YEARS OF AGE.

THANK YOU, MR. CHAIRMAN. I LOOK FORWARD TO TODAY'S TESTIMONY.

Senator D'AMATO. In the interest of time, I am going to ask that my full statement be placed in the record as if read in its entirety.

OPENING STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. I would be remiss, Mr. Chairman, if I did not once again commend you and our staffs and so many others from MIT, the Housing Partnership Task Force for having come such a distance. This is the second in a series of four hearings, Mr. Chairman, as you know, in our attempt to design a legislative format to deal with the housing crisis in America.

This is a crisis that affects not only the homeless, but those who are threatened to be placed in a rather precarious position and may be facing homelessness as a result of rental contracts that run out and contracts and agreements that have provided hundreds and hundreds of thousands of American families with affordable housing that may be literally taken off the market.

That is only one aspect. It is a crisis as it relates to affordable housing for young families today. It has become beyond their means. And of course, we couldn't help but be impressed with the ideas that are out there by knowledgeable people that gives us the opportunity to make a difference.

Last week we heard some very fine testimony. The insights relating to the broad uses of IRA funds as it relates to young families being allowed to use the individual retirement account for down payments and also to help reduce the burden of their outstanding mortgage, and further ramifications as it relates to amendments dealing with the FHA programs to stimulate homeownership opportunities.

So, I believe that we have some unique opportunities and there is a real challenge: How do we coordinate the activities of this Housing Committee with the Finance Committees. It is absolutely essential that the two be working in tandem. So, while there are difficult problems, I think we have some very real hope and opportunity to deal with those problems and to make a difference for so many millions.

[The prepared statement of Senator D'Amato follows:]

STATEMENT OF SENATOR D'AMATO

**"CONCEPT PAPERS" OF THE NATIONAL AFFORDABLE HOUSING ACT
STATE AND LOCAL GOVERNMENT REPRESENTATIVES**

SEPTEMBER 21, 1988

MR. CHAIRMAN, I AM PLEASED TO JOIN YOU AS WE EMBARK ON THE SECOND IN A SERIES OF FOUR HEARINGS ON VARIOUS APPROACHES, EMBODIED IN "CONCEPT PAPERS," TO THE NATIONAL AFFORDABLE HOUSING ACT. OUR FIRST HEARING PROVIDED US WITH HELPFUL INSIGHT INTO THE BROAD USES OF IRA FUNDS AND THE FHA PROGRAM TO STIMULATE HOMEOWNERSHIP OPPORTUNITIES. I LOOK FORWARD TO THIS HEARING AS WE FOCUS ON THE ROLE AND UTILIZATION OF THE STATE AND LOCAL GOVERNMENTS IN MEETING THIS NATION'S HOUSING NEEDS.

ONE OF THE KEY GOALS OF THE NATIONAL AFFORDABLE HOUSING ACT WILL BE TO MAXIMIZE THE RESOURCES AND EXPERTISE OF STATE AND LOCAL GOVERNMENTS. IN ORDER TO ACHIEVE THIS GOAL, FLEXIBLE AND PREDICTABLE FEDERAL FUNDING MUST BE PROVIDED TO THE STATES AND LOCALS. THESE LEVELS OF GOVERNMENT MUST BE GIVEN THE LEEWAY TO FULLY ADDRESS THEIR OWN HOUSING NEEDS.

THE FOCUS ON CENTRALIZED DECISION-MAKING, NATIONAL MARKETS, AND BROAD CATEGORICAL PROGRAMS MUST BE PUT BEHIND US. WE MUST REDIRECT OUR EFFORTS TOWARDS DECENTRALIZATION,

LOCAL MARKET DYNAMICS, AND BROAD AND FLEXIBLE FUNDING MECHANISMS.

A NUMBER OF THE PROPOSALS FOR THE NATIONAL AFFORDABLE HOUSING ACT HINGE UPON THE EFFECTIVENESS OF STATE AND LOCAL IMPLEMENTATION. THESE ORGANIZATIONS WILL BE THE KEY BENEFICIARIES OF THE BILL'S FOCUS ON "SUPPORTIVE HOUSING," HOUSING DESIGNED TO MEET THE COMPREHENSIVE NEEDS OF THE HOMELESS, THE HANDICAPPED, THE ELDERLY, AND FAMILIES WITH CHILDREN.

I HOPE THAT TODAY WILL BE AN OPPORTUNITY TO ADDRESS FULLY THE ROLE OF STATE AND LOCAL GOVERNMENTS AS WE DEVISE LEGISLATION TO MEET THIS NATION'S HOUSING NEEDS. I LOOK FORWARD TO WORKING WITH ALL OF THE GROUPS HERE TODAY AS WE RESOLVE A NUMBER OF THE REMAINING UNANSWERED QUESTIONS AND AS WE RECOGNIZE REFORMS THAT WILL FACILITATE THE GOAL THAT WE ARE ALL AIMING TO ACHIEVE -- TO INSURE THAT ALL AMERICANS ARE PROVIDE SAFE, DECENT, AND SANITARY HOUSING.

THANK YOU, MR. CHAIRMAN.

Senator D'AMATO. I am going to take this opportunity to call the first panel forward.

I will give you the chairman's admonition: If you could attempt to keep your remarks within the 5-minute limit, we would appreciate that, and then we can address questions to you.

STATEMENT OF RAYMOND C. SCHEPPACH, EXECUTIVE DIRECTOR, NATIONAL GOVERNORS' ASSOCIATION, WASHINGTON, DC

Mr. SCHEPPACH. Thank you, Mr. Chairman.

I appreciate the opportunity to appear before the subcommittee today to discuss the concept paper on the National Affordable Housing Act. I would like to quickly summarize my comments and then have my full statement, as well as an addendum, put into the record.

I would like to start with a few overall comments. The Nation's Governors agree that a suitable living environment for all Americans must continue to be a major national priority. The attainment of this goal, however, would require a true partnership between the public and private sectors.

Furthermore, national housing policy should be designed to assure an adequate supply of housing for the general population, but particular attention must be given to low-income individuals and special populations such as the homeless.

NATION'S GOVERNORS WANT TO BE INVOLVED

Today, Mr. Chairman, the housing policy has largely been determined and funded by the Federal Government. As we look to the future, the Nation's Governors want to change that approach. They want to be deeply involved in the development of the final bill. Not only do they want to be deeply involved in the direction and structure of that bill, but they are willing to contribute State dollars for this new national priority.

This change in the Governors' attitudes is brought about by several things:

First, the housing crisis has come to be a major priority for a number of States over the last 5 to 10 years;

Second, housing assistance is a transfer payment, much like food stamps, AFDC, Medicaid, and other similar programs which are administered and partially funded by the States. Consequently, all of these programs must be coordinated to maximize efficiency.

This is becoming more true if the current welfare reform package passes. The States would be involved in assisting the lower-income individuals with education and training. And coordination seems to be key.

The third point I would like to make is that housing programs must be coordinated with economic development strategies, because housing costs can be a detriment to economic growth as well as construction can be a positive and integral part of development strategies.

So, again, States must coordinate housing programs with economic development programs.

Concerning your approach, you are to be commended for the comprehensiveness of the concept paper. We generally agree with

the intent and direction of the housing opportunity program, particularly some of the flexibility that would be given to the State governments.

We do, however, have concerns with respect to the complexity of the program as well as the significant role that local government would be playing.

However, it does provide a good context within which to work, and we look forward to working with you over the next several months as you put together your final plan.

In summary, Mr. Chairman, housing is now a priority for the Nation's Governors, and we want to be at the table as you construct the final program, and we are willing to come to the table with resources to help with this new national priority.

Thank you, Mr. Chairman.

[The complete prepared statement of Mr. Scheppach follows:]



National Governors' Association

Gerald L. Ballies
Governor of Virginia
Chairman

Raymond C. Scheppach
Executive Director

Statement of

Raymond C. Scheppach

Before the

Subcommittee on Housing and Urban Affairs

United States Senate

on

Hearing on the National Affordable Housing Act

September 21, 1988

Good morning, Mr. Chairman. I appreciate the invitation to come before you today to discuss the interest of the nation's Governors in developing new housing legislation. This subcommittee is to be commended for its early leadership in initiating an examination of America's housing policy, culminating with these hearings during the 100th Congress.

The national commitment required to enact a comprehensive federal housing bill in the 101st Congress must be significantly broader than consensus at the federal level. It must include a commitment of cooperation between the public and private sectors. And it must include consensus within the public sector -- among federal, state, and local governments.

My statement today represents an offer on behalf of the National Governors' Association to work with you in developing that consensus. Governors want to have a key role in working with Congress to enact a comprehensive approach to the nation's housing problems and needs. They believe that the goal of providing decent and affordable housing requires a partnership, because neither the public sector nor the private sector alone can resolve the nation's housing problems.

We all know the problems:

- The supply of affordable housing in most markets is not adequate to meet the demand.
- Rental costs have increased steadily in the last decade, while the percentage of those owning their own homes has fallen for the first time since the end of World War II.
- The growing number of homeless Americans has indicated the urgency of dealing with critical housing problems, and not just on a short-term basis.

The NGA policy recommends that overall national housing policy goals be developed and that priorities be set for each level of government in meeting these goals.

Overall National Housing Priorities

- Governors believe that our highest priority as a society is to ensure that low-income Americans are housed in adequate shelter.
- The Governors are concerned with the increasing incidence of homelessness and with developing effective strategies to address this problem. Permanent housing for the homeless is an overarching goal.

Priorities for the Federal Government

- The federal government has a basic responsibility to ensure that shelter is provided to low-income individuals and families. This includes the preservation of existing public housing stock for low-income individuals and rental assistance to subsidize access to standard housing available in the marketplace.
- Federal mortgage programs and federally authorized bond programs should provide essential help to low- and moderate-income first-time home buyers.
- The federal government, in cooperation with state and local efforts, must assume the financial leadership role in providing permanent housing for the homeless.
- A "housing opportunity program" (HOP), similar to the one called for by the National Housing Task Force, should be federally funded at a level of \$2.5 billion. Initially, these funds would come from a consolidation of existing categorical housing programs. When federal budget conditions permit, new budget authority for an additional \$2.5 billion should be added to provide for a total \$5 billion block grant program.

Principles Governing Federal-State Roles in Housing Legislation

Priorities for State Governments

- States are increasingly demonstrating that affordable housing is becoming an important state concern. The trend shows state interest is expected to grow.
- State capacity to help increase the supply of affordable housing is critically dependent upon the continuation of mechanisms such as mortgage revenue bonds, general obligation bonds, mortgage insurance programs, tax credits for low-income housing, and community development block grants.
- States should participate directly in allocating federal funds for the promotion of affordable housing.
- All federal funding for the HOP block grant should be awarded to the state, which would be required to obtain a match for the federal funds. Money would be used according to a state plan, which would identify populations in need and would give priority to the homeless and dependent populations.

- Both federal tax incentives and direct expenditures are needed. Integrating these under one common housing policy is timely and essential. Limited resources make it essential for tax and direct expenditure programs to work smoothly together.
- The federal government must recognize its ongoing responsibility for rental assistance and for the preservation of the federally assisted low-income housing inventory. For this reason, WGA conceptually supports the "rental credits" program included in the staff concept paper as an appropriate continuation of federal responsibility for rent subsidies and the preservation of affordable housing. Even so, the ability of the states to use HOP funds for preservation-related efforts should be permitted if called for in the state's housing strategy.
- Federal secondary market support for mortgages continues to be essential to a comprehensive housing program. The facilities provided through the Federal National Mortgage Association (Fannie Mae) and the Government National Mortgage Association (Ginnie Mae) should be continued. The staff proposals related to Federal Housing Administration (FHA) single and multi-family insurance are good ones but must be responsive to different market conditions in order

to ensure equal opportunity throughout the country. The HOME corporation involvement in credit enhancement, as currently proposed, can augment FHA jurisdiction.

- The successful coordination and combination of a range of programs underscores the value of encouraging states to take a lead role in developing comprehensive and flexible strategies to address housing problems and needs. Some of the most innovative housing programs in recent years, in the best tradition of the American federal system, have been created in the state "laboratories." The new resources and opportunities for leadership under the housing opportunity program will likely generate greater energy and innovation -- because of the states' capacity to forge state/local/private/nonprofit partnerships. Careful coordination by states in the design of strategies to meet the whole range of housing needs should not be regarded as an insignificant administrative detail, but rather as a prerequisite for fulfilling the potential of this ambitious new national housing program.

- The federal government, in cooperation with state and local efforts, must assume the leadership role in addressing the problem of permanent housing for the homeless. NGA strongly supports the extension of the Stewart B. McKinney Homeless Assistance Act. At the same time, the governors

are concerned with a number of proposed reforms to the Act and their far-reaching impact in providing homeless assistance in the most effective and efficient way. The Governors propose that the new funding formula provide funds to the states directly; the states, in turn, would distribute funds to the cities and localities most in need of assistance. This method would increase statewide planning of homeless assistance, ensure the effective coordination of services provided by other state agencies and increase local government's ability to tap into state-developed funding sources to assist the homeless.

And while the McKinney Act has contributed significantly to states' efforts to address the problem of homelessness, it mainly focuses on the short-term housing needs of the homeless. Federal housing programs need to support permanent housing solutions for the homeless. There are no linkages between the McKinney Act and other forms of federal housing assistance. For example, the HOP funds could be utilized to purchase units to house the homeless.

Mr. Chairman, the nation's governors recognize that states have a greater role to play in housing and are prepared for the responsibilities.

It is important for the federal government in this effort to avoid reverting to the historic direct relationship with local governments or public housing authorities that bypasses states, and

that disregards established state and local government relationships. While at one point this may have seemed an advantage from the federal or the local level, it is not an approach that encourages state financial participation to any substantial degree. It is also an approach that has been largely abandoned in other federal aid programs.

Governors are willing to discuss approaches that would bring federal housing programs into the mainstream of state and local policies and further enhance the states' ability to address today's housing problems.

States have a greater capacity to administer housing programs than ever before, and are involved in a wide range of activities from home ownership to homeless intervention. Housing programs are managed through state housing finance agencies, as well as through departments of community affairs. The ability of states to develop comprehensive approaches, coupled with the advantage of proximity to state residents, puts the states in the best position to manage federal appropriations.

The focus of your subcommittee hearing today is an impressive start in a process that should result in the development of comprehensive housing legislation. Many important features remain to be worked out in the coming months and NGA looks forward to working closely with you to further develop the promise of this major national initiative.

ADDENDUM

Homeless Assistance

The Governors are concerned with the increasing incidence of homelessness and in developing effective strategies to address this problem. Throughout the country, those in both the public and private sectors are committing resources to the homeless population. The federal government, in cooperation with state and local officials efforts, must assume the leadership role in addressing this problem and make the provision of permanent housing for the homeless a priority.

The NGA strongly supports the proposal's extension of the housing programs under the Stewart B. McKinney Homeless Assistance Act. At the same time, we are concerned with a number of the proposed reforms to the Act and their far-reaching impact in providing homeless assistance in the most effective and efficient way.

The proposal would revise the McKinney Act housing programs allowing states and localities to determine how to allocate federal resources and provide incentives to develop comprehensive solutions. The funding mechanism would be altered to provide each participating state and locality with a formula grant.

The formula would be based on incidence of homelessness, population, poverty, and shortage of housing affordable to

low-income people. The Governors are concerned with developing a formula based on incidence of homelessness since there is no satisfactory method of counting the homeless. The Adult Education for the Homeless Program was originally supposed to use a formula based on this same criteria. Because the Secretary of Education experienced difficulty in obtaining accurate counts of homeless individuals, the formula had to be revised. This delayed implementation of the program for almost a year.

In addition, the proposed formula doesn't account for the difficulties many states and localities have encountered in implementing the McKinney Act. Problems include the coordination of services on the state and local level due to the Act's varying requirements, deadlines, and application procedures among programs. Since the McKinney Act involves seven different federal agencies, different funding streams, and eligible grant recipients there is a need for a centralized mechanism within each state to ensure effective coordination and delivery of homeless assistance. Recognizing this need, the Senate Governmental Affairs Committee recently passed an amendment (S. 2607) to the bill reauthorizing the McKinney Act to establish such a mechanism on the state level to improve coordination and planning regarding the McKinney Act. The concept paper's proposed formula doesn't adequately address this documented need for state level coordination of McKinney Act programs.

Therefore, the Governors propose that the new formula provide funds to the states directly, to be distributed to the cities and

localities most in need of assistance. This method would increase statewide planning of homeless assistance, ensure the effective coordination of services provided by other state agencies, and increase the ability of local officials or agencies to tap into state developed funding sources to assist the homeless. Many states have appropriated funds specifically for shelters, housing, and services for homeless people. The new formula would enhance the states' role as a source of support for cities and localities. Because states are aware of where the need for funding exists, they can therefore target funds in the most effective way.

Currently, states have an integral role as central information and referral points. More than thirty states have established state coordinators for the McKinney Act. Twenty-five states have developed interagency councils to address the homeless issue. There is a need for the centralization and coordination of services for the McKinney Act on the state level. It not only includes programs for housing but also programs for education, job training, and other support services. These programs will be utilized more effectively and efficiently through state interagency coordination and planning.

The other major proposed change to the McKinney Act housing programs would establish an incentive competition in which participating states and localities would apply for funding for homeless assistance projects. We support this proposal because it will give states and localities more flexibility in developing specialized solutions to housing and homeless. We are also in support of the provision that requires states and localities to

apply for these funds on behalf of nonprofit sponsors. This will help ensure effective coordination and planning, while addressing many of the barriers to participation in McKinney Act programs encountered by nonprofits in the past. During implementation of the Act nonprofits have consistently reported that they have had difficulty in obtaining program information and in completing applications this has hindered their participation.

The NHA agrees with the criteria outlined for project selection under the incentive competition. However, we would propose adding another criteria: the degree to which the project can provide support services to meet the special needs of the targeted homeless population. Support services serve an integral role in assisting a homeless person in becoming self-sufficient.

The McKinney Act has contributed significantly to states' efforts to address the problem of homelessness. Yet, the McKinney Act's housing provisions mainly focus on the short-term housing needs of the homeless. Federal housing programs must support permanent housing solutions for the homeless. Currently, the homeless are not being adequately served by existing federal housing programs. Permanent housing for the homeless must become a priority. This can occur by expanding and preserving the permanent supply of affordable and decent housing and targeting slots in federally subsidized housing to those who are homeless. There are no linkages in the proposal between the McKinney Act and other forms of federal housing assistance. For example, the HOP funds could be utilized to purchase units to house the homeless. The McKinney Act

was intended as an emergency measure so that new policies could address the permanent housing needs of the homeless.

Furthermore, federally subsidized housing programs that target the homeless must be coordinated with service providers to ensure that homeless persons entering permanent housing receive the necessary special supports. These may include case management, counseling, or referral services. For the homeless who are mentally ill, substance abusers or otherwise disabled, these supports are especially important. Employment and training services may also be needed.

Welfare Hotels

The proposal includes a provision intended to eliminate reliance on welfare hotels to assist the homeless. Beginning six months after the bill's enactment, a state or locality would be allowed to use emergency assistance to pay for temporary housing in a welfare hotel only if it is found that rent levels are appropriate, the facilities meet certain federal standards, and the state or locality has an approved five-year strategy to eliminate reliance on welfare hotels.

The Governors believe that these provisions do not go far enough in addressing the current structure and problems regarding the Emergency Assistance program. The Governors believe that the Emergency Assistance program should be revised due to the large and growing number of homeless families with children and the lack of permanent housing for these families.

The Governors recognize that commercial or similar transient accommodations, such as welfare hotels, do not provide an appropriate long-term solution to homelessness. However, the dramatic decline in federal housing funds for low-income families and the present structure of the Emergency Assistance program has restricted the state's capacity to respond to the problems of homeless families. Current federal Emergency Assistance policy does not provide states with the authority to create cost-effective, long-term solutions such as permanent housing but, rather, encourages states to place families in temporary shelter situations at very high costs.

We therefore recommend that the Congress adopt legislation that will provide states with the flexibility to utilize Emergency Assistance funds for transitional and permanent housing arrangements if states can demonstrate that this is a cost-effective alternative to welfare hotels.

The Governors also recommend that the use of Emergency Assistance funds to prevent homelessness, such as paying back rent to prevent a family's eviction, should be allowed. The Governors believe that phasing out the placement of families in welfare hotels is dependent upon the availability of adequate funding to provide transitional or permanent housing for these families.

The NGA offers its assistance in working with the Congress to develop long-term solutions to assist homeless families in moving

out of welfare hotels and into permanent housing. The Governors recognize that this strategy should be part of a policy that will provide permanent housing for the homeless.

Special Needs Housing

The Governors commend the proposal to offer transitional rental credits to support welfare reform by making rental credits available to families involved in job training or other welfare reform programs. This provision will provide an integral link in a welfare family's transition to self-sufficiency.

The Governors believe that it is appropriate for rental assistance to be targeted at other special populations as well. The concept paper proposes to limit eligibility for rental credits to people with family incomes at or below 50 percent of the area median except to avoid displacement of tenants from federally subsidized apartments with incomes between 50 percent and 80 percent of area median. Because different groups within this very low-income population face different housing problems, they require targeted assistance. This includes not only welfare recipients but the homeless, those at risk of becoming homeless, the elderly, and the handicapped, including those persons with mental illness. We also stress the need for the specialized support services for these populations, many of which are outlined in the proposal.

Senator D'AMATO [presiding]. Thank you.

Deputy Secretary of the Maryland Department of Housing and Community Development, Ardath Cade.

STATEMENT OF ARDATH CADE, DEPUTY SECRETARY, MARYLAND DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT, ANNAPOLIS, MD, REPRESENTING THE COUNCIL OF STATE AND COMMUNITY AFFAIRS AGENCIES

Ms. CADE. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, on behalf of the Council of State Community Affairs Agencies, I want to thank you for inviting me to testify.

I am deputy secretary of the Department of Housing and Community Development of Maryland, and chairman of the Housing Subcommittee.

With your permission, Mr. Chairman, I would like to summarize my remarks this morning and have my written testimony submitted for the record.

On a personal level, let me say how much we in Maryland appreciate the concern that our Senator Sarbanes has evidenced about housing problems throughout the Nation and in our State.

We are testifying for two reasons: We want to congratulate the committee for its sustained commitment to reexamining thoroughly the Nation's housing policy. You have outlined a policy that is comprehensive and innovative and appropriate for our current environment and one that really guides us into the next decade.

Second, we are pleased to testify because it will underscore our belief that States must responsibly share in the endeavor to solve our Nation's housing problems and that States are ready to meet that responsibility.

The compendium of housing initiatives at the State level that is put out by COSCAA indicates the commitment of States in that regard. For instance, in the last 2 or 3 years a number of States have for the first time put a great deal of State money into housing, States such as Washington, Vermont, Tennessee, and Virginia.

We in Maryland, for a long time had only three State-funded housing programs, but in 1986 dramatically expanded the State-funded programs, adding rental subsidies, financing of group homes and a program to ensure long-term low-income rentals. And even with all of these funding programs, Governor Shaeffer this year introduced two more very valuable tools: A closing cost loan program and a State-local partnership in which local governments for the first time will own and operate State-financed public housing.

States are largely well prepared to become partners with the Federal Government in helping to provide affordable housing to all Americans.

HOP PROPOSAL

COSCAA especially applauds and supports the overall policy direction of the housing opportunity program proposal, particularly the provision for flexible subsidy that can be tailored to meet the varying housing needs and priorities that exist across the country and the recognition that decisionmaking must take place at the

State and local level within specific national and broad policy parameters.

COSCAA has two concerns with the HOP proposal. One is its complexity. It is not a simple scheme. The new terminology such as the investment certificate and the issuance thereof and the condition that attaches to these funds, it is an awkwardness that some find unappealing.

Second, COSCAA thinks it is important that the HOP not be for State and local debt. In this regard, the policy concept calls for annual fee payment for at least 5 years for the right to issue certificates. That should be carefully examined.

We urge you to recognize the legal and budgetary restraints that exist in many States, restricting obligation of funds beyond their particular budget period.

Aside from these two general concerns about HOP, COSCAA would like to highlight a reservation about the way States are treated in the policy. The areawide danger of housing problems and their solutions and the value of linking housing and nonhousing resources argue for a State role in housing strategies throughout a State.

The policy outline appears to artificially tie the State, and local and that may mitigate the long-term approaches that are necessary to solving the housing problems and linking the housing fund with service funds.

In this regard, COSCAA suggests consideration of the approach contained in S. 2711, the D'Amato bill.

HOP PROPOSAL NEEDS IMPROVEMENT

COSCAA has several other specific suggestions that we believe will improve the HOP proposal:

First, we think the 20 percent proposed for allocation by national competition should not be allocated on a project-by-project basis, but rather be an incentive award based on overall commitment by State and local governments.

In addition, our written testimony expresses some concern about the matching allocation criteria. Because of the vast difference in States' ability to pay, the match requirement might be varied to reflect this, as in COSCAA's SHIPP proposal last year.

The same COSCAA proposal also suggested that the first 20 percent of the funds go to States without any matching requirement, in order to motivate involvement even by those States with the least resources and the least current housing activities.

In regard to the rental assistance reform, the rental credits, COSCAA feels that this substantially improves the present program and strongly supports the changes recommended by the policy.

We would ask that you relook at the fair market rent issue in a way that it can be even more varied among and throughout the States to respond to the true needs in the State.

In the special housing, we support the welfare reform, and we particularly applaud your proposals for homelessness. We share the concerns very strongly that the issue of prepayments must be looked at very carefully.

But we ask that you, however, look carefully at one statement that you have made. You have suggested that States in their proposals on the HOP describe how they would deal with this housing. We are emphatic that this must not lead to designation of States as the key resource provider in order to assure the continued affordability of Federally subsidized housing. The States simply cannot afford this.

We heartily commend the committee for its resoundingly clear intention to bring housing policy back as a priority on the agenda of Congress and of the Nation. And we would like to thank publicly the committee and the subcommittee for their openness, their wide solicitation of ideas and suggestions, their cooperation, and their hard work.

Thank you very much.

[The complete prepared statement of Ms. Cade follows:]

Handicapped and Elderly Assistance

The Governors have been working with the National Association of State Mental Health program directors in addressing key issues involved in the housing needs of special populations such as the handicapped and the elderly.

The Governors support the proposal's emphasis on housing for the handicapped and the elderly. The Governors are concerned that housing for these targeted groups is not isolated, segregated housing but focuses on mixed-use usage. Housing for the handicapped and elderly should become more integrated if it were connected to other housing programs such as the proposed HOP program. The HOP program does not include the targeting of housing for the elderly or the handicapped.

The proposal to provide loans to finance the production of elderly housing would only allow nonprofit sponsors to participate. The Governors recommend that eligible sponsors for this program not be limited to nonprofits but include public agencies as well. Public agencies can and do play a pivotal role in the development of specialized housing programs.

The Governors also recommend that the setaside of rental credits for the handicapped be administered by formula rather than through a competitive grant application process. States and localities could receive these funds by formula and be required to use a specified percent for housing the handicapped. Any funds not utilized by

states could be pooled for use by other states. This formula allocation method would be more equitable, since smaller states don't always have the administrative resources to participate in a competitive application process.

Regarding the proposals for housing the elderly the Governors are concerned that these provisions address not only the elderly person living in public housing but also the elderly home owner. Assistance must be provided to rehabilitate the homes of the elderly as well as provide the necessary supportive services to assist them so they can continue to live at home.

Statement of the
Council of State Community Affairs Agencies

by

Ardath Cade, Deputy Director, Maryland Department of
Housing and Community Development

to the

U.S. Senate Subcommittee on Housing and Urban Affairs

on

Concept Papers on the National Affordable Housing Act

September 21, 1988

Mr. Chairman and Members of the Subcommittee:

On behalf of the Council of State Community Affairs Agencies, I thank you for inviting COSCAA to testify on the Senate Committee's Staff Paper on the National Affordable Housing Act.

I am Ardath Cade, Deputy Secretary of the Maryland Department of Housing and Community Development and Chairwoman of COSCAA's Housing Committee. I am here this morning to testify on behalf of COSCAA. COSCAA represents the fifty state agencies that administer numerous housing and economic development programs, including the Small Cities CDBG Program, the Rental Rehabilitation Program, the Emergency Shelter Grants Program, Section 8 Existing certificates, and other federally funded housing programs. However, collectively, COSCAA members administer more state funded than federal funded housing programs.

With your permission Mr. Chairman, I would like to summarize my remarks this morning and have my written testimony made part of the record.

COSCAA is pleased to testify at this hearing for two reasons. First, we want to congratulate this committee for its sustained commitment to reexamining thoroughly our nation's housing policy. COSCAA believes that your commitment now and in the future is necessary because housing must become one of this nation's priorities and because a housing policy for the 1990s must respond to and take advantage of the changes that have occurred throughout this country in the 1980s.

As the increasing numbers of homeless parents and children become more visible throughout this country, there is a strong moral imperative and growing political support for a new and expanded federal commitment to housing. Before that commitment is made, it makes good sense to do precisely what you are doing - examining closely the nation's housing policy and considering carefully how best to spend the taxpayers' dollars to help provide safe, decent, and affordable housing for America's

families and individuals. You have outlined a policy that is comprehensive, innovative, and appropriate to our current environment, and one that effectively guides us into the next decade.

COSCAA is pleased to testify, second, because we want to underscore our belief that states must responsibly share in the endeavor to solve our nation's housing problems and that states are ready to begin meeting that responsibility.

In this regard, the policy outline contains two themes we think are essential to a new national housing policy.

First, the policy outline recognizes the significant achievement local governments and, especially, states have made in using their own tax-generated funds for low- and moderate-income housing. Increasingly, states are viewing the provision of adequate and affordable housing as a responsibility or obligation that they must undertake, much like education, transportation, and environmental protection. A new national housing policy must build on and facilitate this trend of states accepting housing as an integral, essential, and long-term activity of government. The policy outline does this by providing funds to the states that they must match and by encouraging the increased and sustained sharing of fiscal responsibility for housing among the federal, state, and local governments.

The second essential theme articulated by the policy outline is flexibility, a flexibility that is achieved through delegation of decision-making and priority-setting relative to the use of funds and the use of housing deliverers. It is a plain but powerful truism that housing needs and housing resources vary across the country. The policy outline recognizes this by calling upon states and local governments to develop strategies to address housing needs and determine how to use the federal funds, and by permitting a variety of eligible uses for the funds. Flexibility is also achieved by allowing many different

delivery organizations -- local governments, nonprofits, for-profit developers, public housing authorities -- to be used in actually building the housing. The capability of these delivery organizations vary state by state and by community. Permitting states and localities to use the delivery organizations that are capable and interested, and not mandating or excluding certain deliverers, provides an essential flexibility to national housing policy.

In summary, national housing policy must build on and facilitate the blossoming commitment of states and localities to using their own tax dollars for housing -- the states' increasing acknowledgement that affordable housing is an integral part of their responsibility -- and must be adaptable to housing needs, priorities, and resources that vary among places and over time.

These two themes are well outlined in COSCAA's 1988 edition of the STATE HOUSING COMPENDIUM. Simply expressed, in the last eight years state interest in housing has increased dramatically. Before 1980, only 44 state funded housing programs existed, primarily in California, Connecticut, and Massachusetts. From 1980 to 1987, however, the states created 112 housing programs. Ninety-two of those programs were established since 1983 and more than 26 were established in the last two years. In the past three years, at least eight states became involved in state-funded housing activities for the first time. This state activity is summarized in COSCAA's compendium of state housing initiatives, the second edition of which was published in February of this year. But even as our compendium was published, states were considering legislation to initiate or expand their commitment to housing. Just this year states like Rhode Island, Virginia, Vermont, and Tennessee have made major commitments to affordable housing. These recent activities are reported in States and Housing, a COSCAA newsletter that informs people of state actions in housing.

Why has housing become a major policy issue for many states? First, the substantial reduction in federal housing programs has

forced housing advocates within and without state government to look to state resources to fill partially the gap. In the past eight years the federal budget for assisted housing in HUD has been cut nearly 80 percent and housing needs have grown tremendously. The continuing increase in these needs on the part of low-income renters and potential homeowners are well documented in a variety of recent reports. As federal resources committed to housing decreased and the number of homeless people increased, states have become involved in a policy area that has been traditionally the preserve of the federal government.

Second, the increasing state interest in housing accompanies the recent surge in state initiatives in other areas. For example, states have energetically undertaken new, exciting, and productive ventures in such areas as education, economic development, health care, and welfare. This renaissance in state policy has a momentum that, as long as resources permit, spills over into other areas, such as public facilities and housing.

Third, states are beginning to recognize the link between housing and their other more traditional public policy concerns and objectives. In some areas the lack of affordable housing is putting a damper on, if not snuffing out, the growth of business investment and jobs. In some states the increase in the segment of the population over age 65 puts more pressure on states to address housing issues. In still other cases, housing is essential to the revitalization of declining downtowns or the renovation of deteriorated neighborhoods.

Of course, these explanations should not mask the stark and simple truth. Shelter is a necessity of life, and homeownership is a centerpiece of the American dream. Both have been recently jarred.

The recent public and political acceptance of housing as a legitimate state concern is indeed a dramatic and positive contribution to the health and safety of the American people. However, one must not assume that the states' commitment is financially substantial or that state funds can ever adequately

substitute for weak federal financial support for housing. Few states have the resources, much less the political will, to spend the huge amounts of money per unit that would be required by a go-it-alone approach to low-income housing.

The experience of the states over the last few years indicates that they are well prepared to do what the policy outline suggests: play a major role as a partner with the federal government in ensuring that all Americans are adequately housed.

In response to your request last fall, Mr. Chairman, for proposals for a new housing policy, COSCAA produced a major proposal for involving the states as partners with the federal government in designing, funding, and implementing housing policy. Named the "State Housing Incentive and Partnership Program", or "SHIPP," the proposal was approved by COSCAA's members at our 1987 annual meeting. It is included in the "green book" of housing proposals that the House and Senate housing committees published jointly last October.

In April of this year COSCAA's Housing Committee held a special meeting to review the proposals of the Rouse-Maxwell task force in light of COSCAA's earlier proposal. In August COSCAA's Housing Committee met to review an earlier draft of the housing productions concept paper and conferred with your able staff director, Don Campbell. My comments on the policy outline are based on the discussions at our committee meetings.

COSCAA's comments this morning will focus primarily on the housing production, rental assistance, and special needs housing portions of your policy outline. Our testimony is designed both to highlight and reinforce several elements of the policy that we think are particularly essential to new housing legislation and to comment constructively on several aspects of the policy that we think should be altered and improved.

The Housing Opportunity Program

COSCAA applauds and supports the proposed HOP program,

Senator D'AMATO. Thank you.

Mr. Huckaby, executive director of the Georgia Residential Finance Authority.

**STATEMENT OF HENRY M. HUCKABY, EXECUTIVE DIRECTOR,
GEORGIA RESIDENTIAL FINANCE AUTHORITY, REPRESENTING
THE NATIONAL COUNCIL OF STATE HOUSING AGENCIES**

Mr. HUCKABY. Mr. Chairman, Senators, I appreciate the opportunity to appear before you today on these important concept papers. Having spent a decade as executive director of a State housing finance agency, with two terms as NCSHA's president, I can tell you that the leadership of the State housing finance agencies are encouraged that landmark housing legislation reestablishing a strong Federal commitment is on the horizon.

For a decade we have witnessed a consistent and continuous erosion in our ability to meet housing needs in our States. The administration and Congress has taken away much of the array and quantity of resources once available to us. Yet, our housing needs have not diminished, but have increased across a spectrum from homeownership to homelessness, as the National Housing Task Force so clearly demonstrated.

On behalf of my colleagues, let me say thank you for your leadership. Ever since you, Senator Cranston and Senator D'Amato, announced your commitment to create a new national housing policy, considerable enthusiasm and energy has been generated.

One impact which is already being felt is the introduction of serious legislation directed at various housing policy concerns by Senators Sasser of Tennessee, John Heinz of Pennsylvania, Christopher Dodd of Connecticut, Donald Riegle of Michigan, George Mitchell of Maine, John Danforth of Missouri, and John Chafee of Rhode Island.

Similar legislative activity is occurring in the House, including Henry Gonzalez of Texas, Brian Donnelly of Massachusetts, Barney Frank of Massachusetts, and Barbara Kennelly of Connecticut.

Finally, much is owed to the capable staff working under Don Campbell's direction along with Grace Morgan. The agenda of the 101st Congress will include the most serious deliberations on housing in the last decade. NCSHA will continue to devote our full energies in support of your efforts.

As I present NCSHA's observations on the concept papers, let me stress that my personal perspective is drawn from leading a staff of 100 who administer such programs as mortgage revenue bonds and mortgage credit certificates; multifamily housing bonds; and low-income housing tax credit; section 8 certificates and vouchers, the rental rehabilitation program; and Appalachian Regional Commission and home energy grants.

Based on our strategic plan, we now work more closely with non-profits, such as Habitat for Humanity, and now are financing homeless shelters. During the past session of our general assembly, a State housing trust fund was created, and all State housing responsibilities were vested in my agency. We anticipate funding for the trust fund in the next session.

This range of activities is becoming typical of State housing finance agencies. Five years ago our agencies were financiers—conducts of tax-exempt capital originated at Wall Street.

Today, we are truly housing finance agencies, active across the broad range of housing needs—setting policy, allocating resources, and designing and implementing programs.

The reasons are numerous. Fundamentally, a political will has developed among the Nation's Governors and State legislators to take on yet another responsibility because the need requires public sector leadership. One needs only to follow the recent developments in the National Governors Association's housing policy to recognize their response to this changing environment.

Two weeks ago, we submitted written comments to committee staff covering the concept papers. These comments reflected the fundamental position which NCSHA developed in preparing our submission to you a year ago. We have articulated such to the task force, the MIT policy project, and committee staff over the course of the past year.

First and foremost, NCSHA applauds the breadth of the proposal. Housing "have-nots" can be found among frustrated potential homebuyers, among renters paying beyond their means, among the homeless, the elderly, and others with unmet housing needs.

ALL GROUP'S HOUSING NEEDS MUST BE ADDRESSED

We advocated early on in this process that the public sector must intercede wherever the private sector cannot in and of itself respond. We again no longer have the luxury of attempting to meet only the needs of the homeless or the very poor. The entire spectrum must receive public sector attention. The concept papers reflect this premise. It presents a strong Federal commitment and role. Legitimate housing needs are not ignored. We cannot emphasize enough the need for the Federal leadership and resources across this broad spectrum.

Equally important across the breadth of this effort is the recognition of the role of the private sector. On the one hand, the problem requires every possible participant and every innovative solution from the nonprofit to the benevolent lender. For the very same reason—the magnitude of the housing affordability problem—the private sector and its immeasurable capacity must be utilized fully.

No better example exists than the situation we now confront with low-income multifamily housing. Changes in tax law, loss of direct rental subsidies, and uncertainty over Congress's long-term commitment have contributed to an exodus of the private sector from this area of the market. This trend must be reversed and care taken that it does not reoccur.

As to the intergovernmental aspects of the proposal, to be brief and because NCSHA feels that the emphasis on the basic conceptual framework is appropriate at this time, we will not dwell on details. Only after general agreement on this framework is achieved can we effectively turn our attention to the details which will ultimately give substance to the basic form provided by the concept papers.

Great value is gained by combining tax provisions and direct spending programs. Tax-based and direct spending programs must be allowed to work together. The flexibility to use these resources in combination is essential since today no one program alone will be sufficient to make a project or financing feasible.

NCSHA supports the idea of a single intergovernmental agency, the HOME corporation, through which Federal resources would be deployed for use by States and local governments. Perhaps the most attractive feature of HOME is that it is a one-stop agency in HUD.

HOME funds must be used in conjunction with other Federal and State or local governments. Thus, to be effective, flexibility in the use of HOME funds is necessary to insure the greatest possible impact. Especially in HOME's credit enhancements role, a capability which we support and need, flexibility is crucial.

To ensure flexibility, program targeting must be consistent across the spectrum of programs. This committee must take a leadership role in establishing reasonable, effective, consistent targeting, especially now with tax-based programs often targeted in ways that make combination difficult or impossible. We cannot stress enough the need for cooperation between the Banking Committees and the tax-writing committees.

As to comprehensive housing strategies, we would ask the committee to give greater consideration to one aspect of these concept papers. One of the major goals of the papers is to shift responsibility for programs to States and local governments, yet the approach falls short. Use of Federal funds would be based upon housing strategies developed by States and locals. However, without a means of coordinating these strategies, we risk a Balkan-like array of programs that amounts to little more than a scattergun approach. A concerted effort is needed to encourage States and localities to work with each other and with available non-Federal resources.

GOVERNORS SHOULD ESTABLISH HOUSING POLICIES

The State role can and should be enhanced. The best approach to devising coherent, coordinated strategies is for each Governor to be charged with developing a comprehensive housing strategy for his or her State. The agreement of all major local governments' strategy would be required for full funding. This comprehensive strategy should govern the use of HOME funds, and cover preservation efforts and use of rental credits.

State leadership in crafting the strategies is important in that it takes advantage of the historic role which States have held in the Federal system. Across the Federal domestic program landscape, States are a primary channel through which funds are distributed, housing being the notable exception. Given the need for additional resources, a comprehensive State strategy would provide a framework for State-local cooperation. Matching funds may be accumulated in a manner that overcomes the fiscal limitations local governments may experience.

particularly for its emphasis on intergovernmental and public-private collaboration, its provision of a flexible subsidy that can be tailored to meet the varying housing needs and priorities that exist throughout this country, and its recognition that decision-making must take place at the state and local level within specific national goals and broad policy guidance.

COSCAA's has two general concerns with HOP concept. One is its complexity. It is not a simple scheme: its new terminology, its unusual way of providing funds to states and localities, and the conditions it attaches to these funds give it an awkwardness that some may find unappealing. Second, COSCAA thinks it is important that the HOP certificates not be state and local debt. The HOP investment certificate program may provide substantial budgetary or legal difficulty over time to states and local governments due to constitutional and statutory requirements relative to the magnitude of debt and special processes for incurring debt, including whether fee payments required for at least five years would create problems in jurisdictions that cannot commit resources beyond a current budget period.

We hold these concerns for only one basic reason: We think it is absolutely essential that a new housing policy must encourage, motivate, attract state and local financial commitment and participation. An unnecessarily complicated scheme that requires state and local government to go into debt to the federal government may not be very effective in securing the state and local commitment that is vital to the addressing of housing problems in the next decade.

We know that the committee's staff has wrestled diligently with the debt question and we think that the current policy outline is much improved from earlier versions. Nonetheless, we hope that this issue will continue to be pursued and worked on so that the legislation will achieve the stated goal of motivating state and local financial participation and commitment.

Aside from these two general concerns, COSCAA would like to highlight some reservations about the way states are treated in

the policy outline. Because housing markets are usually multijurisdictional, the addressing of housing problems must actively consider the housing conditions, the demographic characteristics and trends, and the development resources and patterns of a large geographical area. These arewide aspects of housing argue for an institutional mechanism that permits arewide considerations to be made in the allocation and use of assisted housing resources.

The nature of housing problems and appropriate organizations for solving those problems vary enormously across the country. States have an overall view of the extent and magnitude problems within their boundaries that localities do not have. And state governments are literally closer to the problems and resources than the federal government. Therefore, states are in a much better position to understand the problems and channel resources in the most effective manner than is the federal government or local governments. COSCAA continues to believe that state agencies are the logical and most appropriate level for planning and implementing housing programs.

In addition to disbursing funds, states are in the best position to deal with a wide range of issues that affect housing affordability. Issues such as land use, regulations, building code standards, and real estate tax policies, for example, have traditionally been the domain of state and local governments. Federal funds can function as an incentive for states to work with local governments to take positive actions in all of these areas to produce more affordable housing. Additionally, states are often more removed from the intense details of site-related politics than are localities and are in the best position to assess problems and establish priorities.

At the same time, and as so well laid out by the policy outline's discussion of special needs housing, state governments administer and fund programs, such as public assistance, human services, and mental health, that in the future must often be better integrated into the delivery of housing resources.

The availability of substantial federal funds for housing programs to be administered by the states can generate new grass roots support for housing programs. Stronger and better organized housing constituencies would almost certainly appear in states where past public support for housing has not been salient. Federal funds can create and energize a partnership between states and localities that in the long run would strengthen state and local involvement in and commitment to housing. states can best energize the appropriate mix of local, nonprofit, and private sector participants -- whose relative strengths and capabilities vary enormously across the country-- to help meet housing needs.

In summary, the areawide nature of housing problems and their solutions and the value of linking housing and non-housing resources argue for a state role in housing throughout a state. Unfortunately, COSCAA believes that policy outline artificially divides the state into a balance of state and local entitlement split that diminishes the comprehensive and long term approach that is so necessary to solving our housing problems. In this regard, COSCAA suggests consideration of the approach contained in S. 2711 and its special provisions for large local governments as found in 106 (d) (4), wherein large-size localities can concur or challenge the state's plan for use of housing funds in their jurisdictions.

The policy outline seems somewhat inequitable in its geographic focus because the amount of funds allocated to a state is a function of statewide housing conditions and states are encouraged to use these funds throughout the state, yet entitlement localities independently receive a separate allocation of funds above and beyond the state's allocation -- as we read it, essentially, a double targeting to entitlement localities. COSCAA has several other suggestions that we believe will improve the policy outline. First, we prefer that the 20 percent proposed for allocation by national competition should not be allocated on project by project basis. Rather, we

believe that allocations from this 20 percent incentive fund should be based on the overall commitment of a state or local government, for example, the thoroughness of its housing strategy and its willingness to tackle the tough, hard housing problems, its commitment to exceed its match requirement, its commitment to use regulatory action to improve the affordability of housing, and its ability to blend housing and non-housing resources.

Second, COSCAA asks the committee to be sensitive to timing issues in implementation of the HOP. Most states are on a July 1 to June 30 fiscal year and most governors submit their budget to the legislatures early in the calendar year. Consequently, states usually have little ability to take legislative action for congressional legislation enacted after the first half of the year. Match requirements and the time frame for state decisions in the HOP must be sensitive to this timing issue. COSCAA asks that the committee consider some alternatives to handle this, for example, permitting states to make a commitment to match the first year of HOP funds when they provide a match for the second year of HOP funds and phasing in the non-participation penalty, perhaps by setting it at 25 percent rather than 50 percent first year.

Third, many states have active nonprofits with commendable track records in housing, nonprofits with which the states work closely. However, many other states have few nonprofits capable of using significant amounts of money well and quickly. Therefore, COSCAA suggests that the 50 percent penalty for non-use of funds by nonprofits be graduated over a three-year period of time, beginning with a 20 percent penalty and ending with the 50 percent penalty. This will give nonprofits in many states the time to develop capabilities without hurting those in the state that desperately need housing assistance. Similarly, COSCAA thinks it may be appropriate, at least for the first year, to reduce the proposed 18-month holding period for nonprofit use to 12 months.

Fourth, in addition to the numerous eligible activities

listed in the report, COSCAA would add a modest allowance for technical assistance. In many states capacity building for nonprofits is very much needed. Technical assistance also may need to be provided to public housing authorities, regional planning commissions, local housing commissions, and other housing interest organizations. States should be able to use a very small percentage of the HOP funds, particularly a portion of the funds initially set aside for nonprofit use, to provide assistance when it will lead to increased housing production.

Fifth, careful consideration must be given to the timing of actual use of HOP funds and the elimination of current housing programs. The policy outline says that states must notify HUD within six months of enactment of its decision to participate. The state must then prepare a housing strategy that is submitted to HUD, although no time frame for submission is mentioned, with HUD having 60 days to approve the strategy. Once a strategy is approved, then the state enters into a preliminary agreement with HUD, with certificates subsequently issued when funds are needed. It is very possible that 12 or more months may be taken up before federal funds actually start to flow to specific projects. COSCAA suggests that consideration be given in the first year to having the HOP preliminary agreements effected for up to one-half of the funds before a housing strategy must be submitted. All states have some familiarity with administering housing programs and have housing needs, so there should be no problems with procedures designed to use some funds within a relatively short period of time.

COSCAA thinks that the allocation formula proposed in our State Housing Incentive and Partnership Program is a good one and asks that the subcommittee consider it.

Sixth, COSCAA would prefer to see the allocation of HOP funds made by a formula that considers solely housing needs, especially needs for new construction and rehabilitation. Several good measures exist or can be derived.

Seventh, the level of required match for states should be

adjusted by a fiscal capacity measure. States with very limited resources and high housing needs should not be penalized by a match requirement that would be much more difficult for them to achieve than for states with greater resources and perhaps even less housing need. We ask that you look at our SHIPP proposal's specific matching arrangements.

Last but not least, COSCAA asks the subcommittee to consider providing a small amount of federal funds to all states on a non-matching basis, as recommended in our SHIPP proposal, to facilitate the active involvement and financial commitment of all states.

Rental Assistance

COSCAA believes that the rental assistance reforms, the rental "credits," substantially improve the present rental assistance program (certificates and vouchers) and strongly supports the changes recommended by the policy outline. The goals of predictability and flexibility are especially noteworthy because they correct key deficiencies in the current program.

We raise, however, two points that we wish the committee to review. First, while we applaud the concept of alternative fair market rents, we note that many fair market rent adjustments should be made between rural and urban areas or among jurisdictions within a large metropolitan area, and not necessarily always within the submarkets of single jurisdiction. This is another consideration that promotes the need to consider housing resources on a statewide basis. The alternative fair market rent provision must contain some method that allows adjustments statewide and regionwide and not just within a single jurisdiction.

Second, while a sliding administrative fee arrangement for rental credits may be appropriate, the committee should consider the extent to which administering a rental assistance program in low density rural areas, where there are few economies of scale and much distance that needs to be traveled, requires a higher

administrative fee.

Special Needs Housing

The provisions suggested by the policy outline for special needs housing and for housing in support of welfare reform merit a great deal of praise as far as COSCAA is concerned. There is perhaps no more important new housing policy objective in the coming decade than to link assisted housing with a variety of human service resources. COSCAA and the American Public Welfare Association will soon begin a cooperative venture to outline the policy essentials of an effective linkage and to begin to help implement a housing and human services policy linkage at the state level. COSCAA's experience with the McKinney Act makes us fully aware of the desirability of an explicit and systemic collaboration between housing and human service providers.

COSCAA supports the concept embodied in Project Retrofit. We suggest, however, that consideration be given to encouraging demonstrations that would involve other than federally assisted housing. For example, using a portion of new Project Retrofit funds to explore ways in which the elderly can stay in their own homes through relatively minor retrofitting and/or through the provision of innovative services.

COSCAA supports the changes proposed in the housing for the elderly program and supports the creation of separate and distinct housing programs for the handicapped.

COSCAA particularly applauds the changes being proposed for programs to assist the homeless. We hope that some further provisions can be added to secure the coordination of services, especially in the linkage between support services and housing, perhaps by prior state review, and possibly approval, of local homelessness plans or proposed projects or uses. Additionally, care must be taken in developing factors for the allocation formula, especially since the data on the extent of homelessness are, at worse, of poor quality and, at best, contentiously disputed.

Finally, COSCAA also supports the notions embodied in the proposed Project Independence. We only comment that some consideration should be given to help those becoming self-sufficient to move out of public housing, perhaps by a special form of rental assistance, so that others who are more needy can move into public housing.

Other Components of the Policy Outline

COSCAA supports the other aspects of the policy outline that deal with homeownership, preservation, and secondary markets. COSCAA thinks that the changes proposed to the FHA mortgage ceilings and downpayment requirements and the availability of adjustable rate mortgages will be especially helpful in increasing the ability of moderate income households to secure homeownership.

COSCAA agrees that it is critically important to preserve the nation's affordable housing and that special attention must be paid to the housing that is "at-risk" of prepayment or opt-out. To be successful HUD must be able to provide much more comprehensive and timely information, technical assistance, and leadership on at-risk housing than it has in the past, and this is well recognized by the policy outline. The policy outline also recognizes that handling the at-risk housing problem requires that attention be paid to the details of each project.

We raise two notes of caution, however. One is that the selection and introduction of intermediaries must be done very carefully or their involvement may be counterproductive. Our second cautionary note is concern over the proposal's requirement to include descriptions of how states will deal with the at-risk housing as part of the their HOP strategies. We hope that this does not lead to states being designated as the key resource providers to ensure the continued affordability of federally subsidized housing. States have their hands full keeping non-federally assisted housing affordable to low- and moderate-income households.

Last, COSCAA supports the objective of trying to improve the secondary market for affordable rental housing. While we have no objection to the state mortgage pooling and certificate issuing and the proposed role of the HOME corporation, we hope the committee would also explore the option or the parallel development of the current secondary market institutions to create a more effective secondary market for affordable rental housing.

We are cognizant that the concept paper is an outline for dialogue and that many key decisions need to be made before legislation can be drafted. I want to express COSCAA's desire to continue to work with the committee and its staff during the preparation of legislation. During the next several months we will be pleased to provide the committee with specific suggestions for issues within the policy that must be resolved before legislation can be considered.

I want to close by again heartily commending the committee for its resoundingly clear intention to bring housing policy back as a priority on the agenda of Congress and the nation and to recognize and thank publicly the subcommittee's staff for their openness, their wide solicitation of ideas and suggestions, their cooperation, and hard work. Thank you for permitting COSCAA to testify and for your consideration of our comments.

NCSHA would also like to reiterate some of our comments on the three major components contained in the earlier written remarks.

The affordable homeownership component is essential to a balanced approach. As you know, we have worked hard to gain an extension of mortgage revenue bonds. We appreciate your support in this effort. Should we gain only a 6-month extension this year, we would hope to see a further extension included in next year's legislation.

Downpayment assistance is needed also by many potential first-time homebuyers if their goal of homeownership is to be realized.

Moreover, because so many HFA's rely on FHA insurance as credit enhancement for mortgage revenue bonds, and with the contraction of the private mortgage insurance industry, your proposal to broaden and strengthen FHA is strongly encouraged.

The preservation proposal provides a strong sound understanding of how this problem must be assessed and strategically approached. Our main concern is that preservation continues to be recognized as primarily the responsibility of the Federal Government. Where State-local strategies place preservation high among priorities, use of any of the resources available, including HOME funds and rental credits, should be used. Here again is an area in which effective combinations of tax and direct spending policy is essential.

NCSHA is currently working closely with Senators Mitchell and Danforth by staffing their Low-income Housing Tax Credit Task Force. The recommendations of this task force along with a revitalized and workable multifamily housing bond program effectively can complement HOME/HOP within the "investing in State and local strategies" component.

Finally, a simplified FHA multifamily insurance program, especially one that is easy to access, can only strengthen this aspect of the proposal.

Like many HFA's, my agency administers section 8 certificates and vouchers. Simplification through combination of the best aspect of each is warranted. Moreover, the use of project-based contracts to stimulate production is needed. Too often, we have certificate and voucher holders unable to find qualified housing. At the same time, there are developers willing to supply low-income housing if project-based assistance is present.

NCSHA is concerned that a 5-year contract without binding commitment for renewal may be insufficient to attract investors who are looking to stay with their projects on a long-term basis.

We know from experience that project-based rental assistance, offered with the moderate rehabilitation program, is responsible for much of the large-scale project activity involving the low-income housing tax credit. With 15-year compliance on tax credit projects, the need for rental assistance of similar term is increased.

NCSHA is especially pleased to see the supportive housing component in the concept papers. One of my greatest frustrations as an agency director is to witness the needs of the elderly, handicapped, homeless, and low-income families and not even begin to have enough resources to address them. State HFA's should be given a role in administering the various loan funds envisioned. We have

the financial expertise needed and are involved with efforts to address these problems.

One example of this capability is a current effort in which the Robert Wood Johnson Foundation is assisting in funding innovative support services programs for the elderly in a demonstration program involving ten State housing finance agencies.

NCSHA will be monitoring the results of this effort and will disseminate nationally the ways devised to effectively meet these needs. We look forward to the opportunity to share our insights with you as this effort and drafting of legislation proceeds.

In conclusion, on behalf of my colleagues, let me express NCSHA's appreciation of the opportunities we have had to discuss our thoughts with committee staff as the concept papers were being drafted. We are anxious to work closely with this committee and staff in drafting this landmark legislation and seeing it passed next year.

Your leadership is enthusiastically welcomed. NCSHA is confident that important progress can be made in the years ahead. We welcome that challenge.

[The complete prepared statement of Mr. Huckaby follows:]

Senator D'AMATO. Let me ask you this, Mr. Huckaby. I am interested in a comment you made in your testimony. You indicated the proposed role of the States is too limited in the concept papers.

Now, would you comment on whether this role should be maximized; and probably more importantly, how we can broaden the role of State governments?

And, Ardath, if you would care to comment on that, on how we can broaden that role, I would be interested in hearing from you.

BROADEN THE ROLE OF STATE GOVERNMENTS

Mr. HUCKABY. Thank you, Mr. Chairman. I think it is important for a variety of reasons. First and foremost is I believe, as I believe Mr. Scheppach alluded to, we have seen in the last couple of years the tremendous resurgence of activities, programs, fundings at the State level in the housing area, and it is clear that up until the late 1970's, early 1980's, that by and large, States had left the policy arena of housing to the Federal level.

That is no longer true. I think to not have a meaningful, strong, upfront role for State governments, we might tend to limit in some way that involvement, and I think it is critical that we build at the Federal level on the commitment and the programs and resources of States increasingly committed to housing.

Second, I think we have seen from those commitments that a tremendous amount can be done at the State level with the resources in the program.

Third, we are seeing States getting into this area. It is a great incentive for States to work more closely with the local governments in terms of mechanisms.

As I briefly touched on in my comments, we think a comprehensive housing strategy under the direction of the Governor and whatever State mechanism he or she chooses to use is the best approach. This ensures that both State and local governments have to work together, they have to plan the proposals that make sense for their State and localities and that make sense for the Federal programs as well.

Senator D'AMATO. Ardath?

Ms. CADE. Thank you.

One of the things that the housing strategy throughout has emphasized is the need to tie all of the human services in with housing services. And I think that in most of our States, the services are done on a statewide basis under statewide law and direction. And to tie the housing services in as housing expenditures better in with the housing/human resource service component, we feel that having the State involved somehow and all of the funds coming through could be probably the most productive way to make every dollar count the most.

We certainly see the need for the major local governments to have some funds allocated to them, but whether it can be done through State allocation and negotiated at the State level between the large jurisdictions and the State in order to receive the funds from the State or some other mechanism, we would like to continue further discussion on that.

Again, in Maryland we have a very strong partnership between the State and the local governments in our housing programs. Most of our State housing programs require some kind of a match from local government. And again, often we can get even more resources put in when both the State and the local government are involved in the thinking process for each jurisdiction.

Senator D'AMATO. Mr. Scheppach?

Mr. SCHEPPACH. Basically, the point has been made that States are moving toward a caseworker approach, where an individual caseworker who is working with the recipient, needs to have a whole menu of services that include not only Medicaid and work and AFDC payments but also housing services.

So, I think that to take that out from the human services program creates a lot of inefficiency in the way the States administer their programs.

Senator D'AMATO. Let me express a reservation, if I might, as it relates to making one all-powerful. And I know that its not what anyone said, but the tendency to dominate comes from the area that controls the purse strings.

One of the deficiencies, I believe, that we have in the Federal housing programs is the fact that we have tailored too narrowly and restricted activity that otherwise State and local governments could undertake, and by targeting with specificity, we have made it impossible for States and local governments to address some of the pressing needs.

So, many of the dollars that we have had have not gone to specific States, have not been drawn down. And I am not saying that we have provided enough, but simply because the body here and my colleagues in the House have taken it unto themselves to design these programs with specificity. And they don't work in certain areas: In rural communities, smaller towns, and even some of our smaller urban centers.

That is the thinking, and I know that you comment on Senator Dodd and my legislation, the block grant, to give States and local governments that option.

Second, I would have to say that I think that while the Congress has too narrowly defined some of these programs and, as a result of that, have precluded some of the initiatives that otherwise could be taken to develop home ownership, to develop rental assistance for various groups, rehabilitation, et cetera. And I am very concerned that we don't do the same thing as it relates to one area of government—and that is the State level—which then develops the same kind of philosophy that we have had for some years here and does not work in that partnership, given the local villages and towns and counties the same kinds of flexibilities that the local governments require.

There is a great disparity, for example, in the needs and interests of New York City as opposed to the rural areas of my State, which are far different or from the suburban towns in Long Island as compared to some of the suburban towns in our upstate communities.

So, I think we have got to attempt to instill that kind of idea of flexibility that those local communities will have and it will not be the State just doling out on the basis of dollars.

I just wanted to share that concern with you.

Mr. HUCKABY. There must be a balance there, Mr. Chairman.

Ms. CADE. We have found in Maryland, again, that virtually all of the projects that are financed through the State are ones that have local government approval, that the local government themselves have to be in favor of things that are being funded so it really is a joint venture in virtually every case.

Senator D'AMATO. I would go one step further, and not only would I like to see improvement from the State, but I would like also, if we could—and I know the staff has been doing a terrific job on this—not stifle local initiative, because even within our cities we will find that the various neighborhoods loan themselves to different kinds of programs and that if you were to come in and attempt to develop a rental housing program in one particular part of the community, it would not be accepted, while within a very close proximity two or three blocks north or south, it might be exactly what is needed and within, again, the same suburban community or the same city.

The need for rehabilitation funds, equity programs where you can come in and put your time and limited amount of capital into rehabilitation, sweat equity.

So, the local initiatives, the things that we want to challenge because with it brings not only direct dollars from the local government, mostly these local governments don't have large dollars. What they have is maybe a piece of property that is unusable in its present situation that they can donate, they can donate some tax relief, and in many cases it can bring in though, local community groups, businesses that will become part of the effort.

In New York one of our glowing examples is the Brooklyn Union Gas program where they have become a major—here is a major corporation that has recognized that the health and vitality of its community is important to its own survival, its own prosperity. So, they have become very much involved in making housing grants and opportunities possible.

So, that is one of the things that we can continue to encourage, and we are certainly looking forward to your participation.

Mr. SCHEPPACH. If I could make one point, I agree with your concern. I would, however, like to stress the fact that State government has a good track record of working with local government.

I think in terms of the revenues provided to local government, States provide eight to ten times as much as the Federal Government does. So, if you look across the board from education to infrastructure, there is a fairly good relationship, Senator.

Senator D'AMATO. Mr. Scheppach, as executive director of the National Governors Association, I duly note that your concern has been evidenced. [Laughter.]

Senator CRANSTON [presiding]. Thank you for carrying on while two problems caused me to be absent. I am sorry that I did not hear your verbal testimony, but I assure you that I will be looking at your statements to us.

We share the goal of providing Federal housing assistance with flexibility and administrative simplicity. Many have had much more complexity in our preliminary proposal than we intend. We

do want to make sure that we do have the simplest, most streamlined approach possible when we get done.

I feel strongly, however, that we should design a program that underscores the Federal housing support as a long-term commitment to affordable housing as a long-term national asset, not a transitional stage and Federal retreat from housing.

We have had a retreat now for 8 years. We are going to build on what the States and local governments are doing, and we will reassert Federal responsibilities.

Any suggestions you want to give us in writing or at any other time today about simplifying and streamlining we would welcome.

The concept paper rests on two convictions: first, that States and localities should play a larger role in the design and implementation of housing programs; second, housing assistance must continue to come principally from the Federal Government. It builds those convictions into the program structures.

Contrarily some claim that housing is a State and a local responsibility. They support a block grant as a way to take current Federal funding for what they call failed housing programs, and turn the funding over to States and localities. For them, a housing block grant is a good transitional device to get the Federal Government eventually out of housing. We have to be ready to contend with that view when a new policy is being enacted.

From your testimony I take it that each of you believes that strong Federal support of housing is necessary. From your experience, what would happen if funding for housing assistance was left solely to States and local governments? How would you respond to the proposal that we merge CDBG with Federal housing funds and give States and localities one large, flexible grant?

Whoever wishes to may answer.

CDBG AND FEDERAL HOUSING FUNDS

Ms. CADE. I made one point, and I would like to make it again, in the areas of prepayment, each State, I think, is taking some of the responsibility on how to keep the present housing stock in affordability.

We feel strongly that we cannot be the chief financial tool to provide the ongoing support of keeping that housing for low-income people. We in Maryland are looking at proposed legislation to take some minor steps that can support Federal action, but it cannot be the big dollars. Those dollars simply are not there at the State level.

That is true also in the realm of credit. Those sustained dollars for very low-income people to have support of rental payment must come from the Federal level.

Again, we in Maryland started a small program of rental subsidy. That is a big breakthrough for a State. There are very few States that have that. But again, it is a very minimal level and is dealing with very focused people who are in emergency situations, who are virtually homeless and are trying to get into stabilized housing so that they can get back in the mainstream.

**Testimony of Henry M. Huckaby,
Executive Director of the
Georgia Residential Finance Authority
on Behalf of the
National Council of State Housing Agencies
Before the
Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing and Urban Affairs
United States Senate
September 21, 1968**

Mr. Chairman, Senators, I appreciate the opportunity to appear before you today on these important Concept Papers. Having spent a decade as executive director of a state housing finance agency, with two terms as NCSHA's president, I can tell you that the leadership of the state housing finance agencies are encouraged that landmark housing legislation reestablishing a strong federal commitment is on the horizon.

For a decade, we have witnessed a consistent and continuous erosion in our ability to meet housing needs in our states. The Administration and Congress has taken away much of the array and quantity of resources once available to us. Yet our housing needs have not diminished, but have increased across a spectrum from homeownership to homelessness as the National Housing Task Force so clearly demonstrated.

On behalf of my colleagues, let me say thank you for your leadership. Ever since you and Senator D'Amato announced your commitment to create a new national housing policy, considerable enthusiasm and energy has been generated. One impact which is already being felt is the introduction of serious legislation directed at various housing policy concerns by Senators Jim Sasser (D-TN), John Heinz (R-PA), Christopher Dodd (D-CT), Donald Riegle (D-MI), George Mitchell (D-ME), John Danforth (R-MO), and John Chafee (R-RI). Similar

legislative activity is occurring in the House, including Henry Gonzalez (D-TX), Brian Donnelly (D-MA), Barney Frank (D-MA), Charlie Rangel (D-NY), Joe Kennedy (D-MA), and Barbara Kennelly (D-CT). Finally, much is owed to the capable staff working under Don Campbell's direction along with Grace Morgan. The agenda of the 101st Congress will include the most serious deliberations on housing in the last decade. NCSHA will continue to devote our full energies in support of your efforts.

As I present NCSHA's observations on the Concept Papers, let me stress that my personal perspective is drawn from leading a staff of 100 who administer such programs as Mortgage Revenue Bonds and Mortgage Credit Certificates; Multifamily Housing Bonds; the Low-Income Housing Tax Credit; Section 8 Certificates and Vouchers, the Rental Rehabilitation program; and Appalachian Regional Commission and Home Energy Grants. Based on our strategic plan, we now work more closely with non-profits, such as Habitat for Humanity, and now are financing homeless shelters. During the past session of our general assembly, a state Housing Trust Fund was created and all state housing responsibilities were vested in my agency. We anticipate funding for the trust fund in the next session.

This range of activities is becoming typical of state housing finance agencies. Five years ago, our agencies were financiers---conduits of tax-exempt capital originated at Wall Street. Today, we are truly housing finance agencies, active across the broad range of housing needs - setting policy, allocating resources, and designing and implementing programs. The reasons are numerous. Fundamentally, a political will has developed among the Nation's Governors and State Legislators to take on yet another responsibility because the need requires public sector leadership. One needs only to follow the recent developments in the National Governors

Association's housing policy to recognize their response to this changing environment.

General Observations

Two weeks ago, we submitted written comments to Committee staff covering the Concept Papers. These comments reflected the fundamental position which NCSHA developed in preparing our submission to you a year ago. We have articulated such to the Task Force, the MIT Policy Project, and Committee Staff over the course of the past year.

First and foremost, NCSHA applauds the breadth of the proposal. Housing "Have-Nots" can be found among frustrated potential homebuyers, among renters paying beyond their means, among the homeless, the elderly and others with special unmet housing needs. We advocated early on in this process that the public sector must intercede wherever the private sector cannot in and of itself respond. We again no longer have the luxury of attempting to meet only the needs of the homeless or the very poor. The entire spectrum must receive public sector attention. The Concept Papers reflect this premise. It presents a strong federal commitment and role. Legitimate housing needs are not ignored. We cannot emphasize enough the need for federal leadership and resources across this broad spectrum.

Equally important across the breadth of the effort is the recognition of the role of the private sector. On the one hand, the problem requires every possible participant and every innovative solution from the non-profit to the benevolent lender. For the very same reason . . . the magnitude of the housing affordability problem . . . the private sector and its immeasurable capacity must be utilized fully. No better example exists than the situation we now confront with low-income multifamily housing. Changes in tax laws, loss of

direct rental subsidies, and uncertainty over Congress's long-term commitment have contributed to an exodus of the private sector from this area of the market. This trend must be reversed and care taken that it does not reoccur.

Intergovernmental Aspects of the Proposal

To be brief, and because NCSHA feels that the emphasis on the basic conceptual framework is appropriate at this time, we will not dwell on details. Only after general agreement on this framework is achieved can we effectively turn our attention to the details which will ultimately give substance to the basic form provided by the Concept Papers.

Great value is gained by combining tax provisions and direct spending programs. Tax based and direct spending programs must be allowed to work together. The flexibility to use these resources in combination is essential since today no one program alone will be sufficient to make a project or financing feasible.

NCSHA supports the idea of a single intergovernmental agency, the HOME corporation, through which federal resources would be deployed for use by states and local governments. Perhaps the most attractive feature of HOME is that it is a "one-stop" agency in HUD.

HOME funds must be used in conjunction with other federal and state or local programs. Thus, to be effective, flexibility in the use of HOME funds is necessary to insure the greatest possible impact. Especially in HOME's credit enhancements role, a capability which we support and need, flexibility is critical.

To ensure flexibility, program targeting must be consistent across the spectrum of programs. This committee

must take a leadership role in establishing reasonable, effective, consistent targeting, especially now with tax based programs often targeted in ways that make combination difficult or impossible. We cannot stress enough the need for cooperation between the banking committees and the tax writing committees.

Comprehensive Housing Strategies

We would ask the Committee to give greater consideration to one aspect of these Concept Papers. One of the major goals of the papers is to shift responsibility for programs to states and local governments, yet the approach falls short. Use of federal funds would be based upon housing strategies developed by states and locals. However, without a means of coordinating these strategies, we risk a Balkan-like array of programs that amounts to little more than a scatter-gun approach. A concerted effort is needed to encourage states and localities to work with each other and with available non-federal resources.

The state role can and should be enhanced. The best approach to devising coherent, coordinated strategies is for each Governor to be charged with developing a comprehensive housing strategy for his or her state. The agreement of all major local governments' strategy would be required for full funding. This comprehensive strategy should govern the use of HOME funds, and cover preservation efforts and use of Rental Credits.

State leadership in crafting the strategies is important in that it takes advantage of the historic role which states have held in the federal system. Across the federal domestic program landscape, states are a primary channel through which funds are distributed, housing being the notable exception. Given the need for additional resources, a

comprehensive state strategy would provide a framework for state/local cooperation. Matching funds may be accumulated in a manner that overcomes the fiscal limitations local governments may experience.

Under a more comprehensive strategy, the allocation system is simplified. Local governments would receive funds according to the strategy. Since no strategy would be fully funded without agreement by the Mayors or chief executive officer of the major local governments, exclusion of local concerns or participation would be unlikely to occur. Currently, both the private purpose bond cap which governs the use of Mortgage Revenue Bonds and the Low-Income Housing Tax Credit allocation cap are administered by states.

Moreover, the use of a comprehensive strategy enables a response to housing needs which typically defies local jurisdictional boundaries. State and local resources could be pooled to provide the matching funds in a way that balances variations in fiscal capacity.

Observations on the Three Components

NCSHA would like also to reiterate some of our comments on the three major components contained in the earlier written remarks.

The affordable homeownership component is essential to a balanced approach. As you know, we have worked hard to gain an extension of Mortgage Revenue Bonds. We appreciate your support in this effort. Should we gain only a six month extension this year, we would hope to see a further extension included in next year's legislation.

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NCSHA is currently working closely with Senators Mitchell and Danforth by staffing their Low-Income Housing Tax Credit Task Force. The recommendations of this task force along with a revitalized and workable multifamily housing bond program effectively can complement HOME/HOP within the Investing in State and Local Strategies component. Finally, a simplified FHA multifamily insurance program, especially one that is easy to access, can only strengthen this aspect of the proposal.

Like many HFAs, my agency administers § 8 Certificates and Vouchers. Simplification through combination of the best aspect of each is warranted. Moreover, the use of project based contracts to stimulate production is needed. Too often, we have certificate and voucher holders unable to find qualified housing. At the same time, there are developers willing to supply low-income housing if project based assistance is present. NCSHA is concerned that a five year contract without binding commitment for renewal may be insufficient to attract

investors who are looking to stay with their projects on a long-term basis.

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One example of this capability is a current effort in which the Robert Wood Johnson Foundation is assisting in funding innovative supportive services programs for the elderly in a demonstration program involving 10 state housing finance agencies. NCSHA will be monitoring the results of this effort and will disseminate nationally the ways devised to effectively meet these needs. We look forward to the opportunity to share our insights with you as this effort and drafting of legislation proceed.

Conclusion

On behalf of my colleagues, let me express NCSHA's appreciation for the opportunities we have had to discuss our thoughts with Committee staff as the Concept Papers were being drafted. We are anxious to work closely with this Committee and staff in drafting this landmark legislation and seeing it passed next year. Your leadership is enthusiastically welcomed. NCSHA is confident that important progress can be made in the years ahead. We welcome the challenge.

But we simply cannot carry a long-term rental subsidy program that has long been the product and the responsibility of the Federal Government. I think that goes all the way across the States.

In regard to the question on CDBG and the housing being merged into one block grant, we would think that would be somewhat really devastating. The CDBG program is being used creatively by both the entitlement areas and by the small cities.

We are finding that a great deal of the money is going into infrastructure now. That seems to be our heaviest demand. There are still the very heavy economic development demands and our money going into housing again is usually a very focused, targeted project. It does not have enough resources to pick up and carry the whole housing responsibility that we think needs to be carried. And we believe that there is a way in which States in conjunction with the local governments can very responsibly use additional Federal dollars under Federal guidelines and policies to do things that certainly have not been able to be done through the current block grant structure, the current block grant fund.

We would discourage the merger of those two programs very strongly.

Mr. HUCKABY. Certainly I would echo Ms. Cade's views on the merger of CDBG with other funds. Clearly, I think by any measure the CDBG program has been very successful. And as we say down south, you might be fixing something that ain't broken. I don't think you should fool with it. And I would imagine that most local governments would concur in that.

Second and more broadly, in terms of the Federal role in housing, despite what we are doing at the State level, despite what the States and local governments are doing, the resources are not there on a continuous basis.

I think you only have to look from a historical perspective at what has happened in this country in housing. The Federal Government, by most measures, despite some problems here and there, has done an outstanding job since the late 1930's in bringing housing to the quality level it is today. If we do not have organizations such as FMHA, GNMA, FHA, VA, Farmers Home, all of those components have been critical not only to providing capital but they also have been critical in providing credit enhancements.

To the extent that it allows the private sector to play a greater role, it allows the private sector to use their resources and to use their skills, to use their abilities in a way that could not be done without them.

So, I think that to do anything that begins to show a removal from that field of public policy would be a tremendous mistake, Mr. Chairman.

Senator CRANSTON. Mr. Scheppach?

Mr. SCHEPPACH. Yes. I think the Governors look at the low-income portion of housing very similar to the way they look at the transfer payments such as Medicaid, AFDC, food stamps, and so on.

There is a very major role for the Federal Government here in terms of reallocating moneys among States because the proportion of individuals under the poverty line to the number of wealthy is not the same in the individual States. It seems that there is a

major role for the Federal Government to reallocate moneys from the higher per capita income States where poverty may be lower to States with lower per capita income that have higher degrees of poverty.

It seems to me that is an area where the Federal Government has a major role. There is a reluctance for State government to take it over. They are willing to make a contribution, but they still believe it is basically a Federal responsibility.

In terms of the merger of the programs, I would pretty much agree with Mr. Huckaby and especially with Ms. Cade with respect to her comments.

Senator CRANSTON. Any legislation that would provide Federal assistance principally through State and local governments has to face up to the great disparity between States' and localities' resources, capacities, and so forth. Some have great sophistication in housing programs design and implementation, and others have little or no experience. Some have substantial fiscal capacity, others are hard-pressed. Some are committed to providing affordable housing, and others are not so committed.

The concept papers deal with that problem in two key ways: First, by providing technical assistance; second, by providing a relatively easy way for eligible jurisdictions to opt into the HOP program and then giving them up to 5 years before they have to spend their assistance.

How would you suggest that the problem be handled? How can we avoid forcing inexperienced jurisdictions to spend money unwisely or, alternatively, avoid squeezing them out of the program?

PROBLEMS OF INDIVIDUAL STATES

Ms. CADE. In the SHIPP proposal that HOP provided to this committee last summer when you asked for suggestions, we discussed quite thoroughly the sense that there are some States that have greater capacity now, greater investment now, and we proposed at that time that the match requirement asked of States in whatever program evolved might meet on some kind of a scale that reflects the State's ability to pay.

We know there are States that have virtually today no State investment of funds in housing programs; whereas, many of the others of us now have a very heavy State investment, and we know that the poverty in some States means their ability to pay is less.

So we felt that a match requirement that is not equal for all States, at least for the first few years, might be one way to help those States get started in housing.

Another suggestion was that the first 20 percent of the money going to each State go without matching requirement, helping the lower income States and the States that don't have a political base yet that says housing is something we should be spending money on, help them get started in a way that then makes it understandable so that there would be a growing political commitment to State investment.

I think the phase-in, the timeframe given in the proposal to use the HOP certificates is a very good factor. It does give the different

communities a variety of chances to get in, and I thought that was a very good feature built into the proposal.

Senator CRANSTON. Any other comments?

Mr. HUCKABY. I would comment. In general I agree with Ms. Cade's observations. I would further comment, though, I think you would be pleasantly surprised that as you begin to make resources available, as responsibilities and financial opportunities increase, it sort of becomes a circular effect, that both State and local governments would fall in line very quickly to find creative and innovative ways to develop the capacity, to develop the fiscal expertise. So in a short period of time I think—in the 5-year timeframe that you mentioned, Senator Cranston—that the program such as you propose and proposed in other pieces of legislation would be pretty effectively—throughout the country would be pretty effectively in effect.

Mr. SCHEPPACH. I agree with the need for technical assistance. The possibility of small block grants early on could also be helpful. I agree with Ms. Cade both on the phasing—I think wealthier States are able to pay more, so a scale based on income and need would be appropriate. Phasing in may also be important, beginning with a low share for States in the first 3 to 5 years and then a more significant share in the outyears. That would help with the planning process.

Senator CRANSTON. Thank you all very much on that point. It is helpful. The creation of a HOME Corporation is proposed for two reasons.

First, it would provide a hot spot within HUD to which the new Secretary could attract a new team of top talent. It would be an office with a clear mission and enough definition within the department to minimize the problems of having to administer fresh new policy through an existing bureaucratic structure that has been severely weakened in recent years.

Second, it would give States and localities a one-stop agency that can actually deliver the various forms of Federal housing assistance that States and localities need. It would be an agency that has a strong incentive to help local strategies actually succeed.

From your experience, what is the benefit of a one-stop agency to States and localities? Would it make just as much sense to provide assistance through several different offices in HUD, some through an office of housing block grants, some through Ginnie Mae, some through FHA and perhaps other assistance through other offices?

Mr. SCHEPPACH. I can say very quickly we have had some experience with legislation in other areas where we have had 9 and 10 agencies to deal with, and that creates a lot of problems. To the extent that we can have one stop, we would very much be in favor of that, Senator.

I will not comment on the structure of the office. We are a little bit reluctant since we would prefer that you not tell us how to structure our agencies. So I would rather not make a comment on that.

But one stop I think would be valuable.

Ms. CADE. I think the idea of the HOP spot in HUD and that spot being successful is a good concept. The focus there, the kind of information that would be gathered there and the intense working

with State and local government I think can be very helpful, and again we have seen this at our own level of trying to create a one-stop shop for local governments who are trying to work on projects, and I know that they find it very valuable, and I know that we would find it very valuable at the Federal level as well.

Mr. HUCKABY. I would concur, Mr. Chairman. I think behind your remarks is the same concerns we have, is that over the last number of years we have seen a diminution of HUD in a variety of ways where it is clear it is not impossible to work with a variety of offices and agencies within HUD, that in getting a new program, new policy implement it very well may be better and easier to have a new entity created in HUD rather than trying to re-energize HUD across a broad spectrum.

I would agree with Mr. Scheppach, if the final decision is not to do that and we have to work with a variety of entities, agencies, offices, we have done that before and we will do it again.

However, as you set up this entity, if you in fact do that, in terms of the activities and responsibilities, we hope at the same time that you would look carefully at the funding aspects, technical assistance or whatever, but that you not forget about the credit enhancement side in that process as well, that whatever programs you put into effect, particularly if we are going to build upon an enhanced involvement of the private sector, it is critical that the activities and energies, whether it be FHA or some new program activity within HOME, be given very careful consideration.

Senator CRANSTON. Ms. Cade, you recommend on page 8 that the nonformula HOP funds be distributed not on a project-by-project basis but on the overall performance of the State or locality.

Would you expand on why you think that is important and cover the items you have mentioned, such as willingness to tackle housing programs or commitment to relief that that can be measured with enough objectivity to be the basis for competition for funding?

FUNDS TIED TO STATE PERFORMANCE

Ms. CADE. Again, COSCAA, in thinking through its proposal a year ago, which in many ways is similar to the HOP proposal, felt that the incentives to get States to be heavier participants was very, very important and that they should be rewarded for being heavily involved and that that reward should come in the form of additional funds that could be used for projects that they felt were important, and rather than having people come and just ask for a particular project, which in itself might be good, that the State or combination of State and local governments that receive that funding would then have the chance to use it in ways that they felt were of a continually important method.

Some of those factors are not easily measured. We recognize that. But certainly State investment increases in State investments, increases in local investment in housing, and various other fairly tangible factors can be measured.

Creativity is a little harder to measure, but I think that some of that can be evaluated, too.

Senator CRANSTON. Mr. Huckaby, you mentioned the need to coordinate housing strategies of the State and localities within it.

That is one idea we will be working on when the legislation is drafted, I assure you.

How would you achieve that practically without having States and localities forced by Federal law to go through burdensome and wasteful review procedures?

Mr. HUCKABY. I think clearly in doing that, in setting up the mandate or the requirement that a comprehensive housing strategy be developed at each State level, one that makes sense and is responsive to the needs of each State, and you need some flexibility. How we would go about—how Governor Harris might go about doing that in Georgia may differ with how it would be done in New York or California, but I think clearly the bottom line is by having at least the requirement in the books that a comprehensive strategy that clearly defines to the Federal officials, wherever they might be in HUD, clearly meets the—meets needs, identifies needs, and shows creative ways and joint ways between State and local governments that those needs are going to be met.

That can be done, and as I mentioned early in my verbal comments, I think it is a great catalyst for bringing together in those instances where there may be some reluctance at the State and local level to work together. It is a great catalyst for them to work together, and quite frankly, if they are unable to agree to accomplish the strategy and unable—and the local government is unable to buy into a particular phase of it, then there probably should be consideration of a financial penalty. In other words, they would not be able to secure a full level of funding that they would otherwise if they had an agreed upon comprehensive strategy.

Senator CRANSTON. One of the very difficult problems that we are confronting right now and we have to think about in terms of the future relates to the fact that we are now wrestling in Congress with the potential loss of federally assisted low income housing as the 20-year affordability restrictions expire. The new HOP program could replicate that problem.

We have got to try to avoid that. If we just left it so that the State and local governments use HOP funds to assist in housing that will remain available to the poor for only 20 years or even less than 20 years and then no longer be earmarked for that purpose, how can we ensure that the States and localities achieve affordable housing and have adequate incentives for longer periods without imposing unnecessary program rigidity on States and localities?

I ask any one of you to answer that.

Mr. HUCKABY. I will answer very generally, Mr. Chairman. I think the first thing you have to do in crafting this aspect of the HOME or HOP program is that, one, you have got to have the flexibility there to develop projects, financing structures that make sense for that locality.

Second, this points up the need to continuously be working with the private sector and having an understanding of what really is essential to bringing and retaining the private sector into these areas.

That addresses a couple of areas, one, the credit enhancement area. When you are developing housing for low income people, particularly, the lower you go in the income spectrum, the more risky it becomes. So there has got to be the credit in it, the credit en-

hancement incentives there to back up those projects, or you cannot secure the financing.

Second, you have got to have a tax credit program that makes sense and works in concert with these activities. Right now you have a tax credit program which is very laudable in concept and is achieving, beginning to achieve some success, but the tax credit runs for one period of time and you have the requirement for retaining the housing in a low income area as another thing.

Third, we have talked—and I think you discuss in your concept paper—the use of rental credits, allowing them to be project based. We have seen that that can work very, very well, particularly in the rehab program. I think some of the ideas in the concept paper talks in terms of 5 years. Well, there is a mismatch there. If you are going to anticipate bringing about and sustaining, to retain the housing for low income persons, the availability of that rental credit must more nearly match the period of time, length of time that you want to retain that housing for low income people.

Senator CRANSTON. Any other comments on that problem?

Ms. CADE. We are learning from what we are going through right now, and more and more as we are financing projects we are trying to build in protections out at the far end, so that there will be equity sharing where the residual value will have to be reinvested in low income housing or in some way that there is an anticipation that at some point there needs to be reinvestment in that housing or in some other housing to house that same low income population.

I think it is taking a lot of creativity, and again when we are into our State—local and State financed public housing that we are just starting again, that will be—I say in perpetuity—certainly for as long as foreseeable that that housing will be retained or there then would be a requirement for some repayment and replacement of the housing.

It is a very difficult thing, but I think—as I say, I think we are all trying to learn from the situation we are now in.

Mr. SCHEPPACH. One other comment. I think one of the things you should keep at the top of the list is stability and certainty of the outyear funding. States will try to create certainty at the lower levels, if you can somehow create a certain amount of budget stability. I realize it is very difficult with the current budget problems, but you need to consider as you look at the various mechanisms how much certainty you can maintain in that way.

Senator CRANSTON. The final question does not relate directly to what we are trying to draft in relationship to the present problem, but one we are discussing.

How do you think we should deal with the present problem of housing where the Government contract is expiring? Those who invested in it, the entrepreneurs, are looking to make a profit, and while we want to keep faith with them and we also want to prevent a lot of people from being thrown out in the streets without housing for them to turn to.

What do we do about that, in your opinion?

Ms. CADE. That is a very formidable question.

Senator CRANSTON. It sure is.

EXPIRATION OF GOVERNMENT CONTRACT

Ms. CADE. We, I believe, are looking to the Federal Government to—if there is to be a large financial input to retain that housing by continuing subsidies, or whatever, that financing I think has to come through the Federal level. We are looking at some methods of trying to give better opportunity for others to take over that housing, if possible by looking at certification requirements and right of first refusal and some displacement payments, and so forth.

But there still is the need to protect the owner's rights, and so forth, and I don't propose to be able to say what the solution to that is.

Mr. HUCKABY. If I had a solution, we might not have a problem, Senator Cranston. But certainly there are a couple of things that we need to do.

One, in looking at the Housing Act of 1987, we need to be forward with addressing these issues specifically, both at the State level and with HUD, and by that I mean we need to come up in each individual State with plans that make sense for that State and the localities in that State on how we are going to deal with this, and there again just in doing that and implementing those plans, that would require some flexibility.

Second, I think one thing we have got to do—and then this gets back to Senator D'Amato's comments earlier—it reflects a great opportunity for this committee and the tax writing committees to work together. There are possibilities in terms of changing the tax laws to provide some incentives for nonprofit organizations, whether they be nonprofits in the true sense or created by local and state governments, to have the opportunity to buy the housing and thereby have a means of maintaining and preserving it for low income people.

But it is a difficult problem. It is one that is not going to go away, and it will get more severe in the next 2 or 3 years out. It deserves a lot of attention from all of us.

Senator CRANSTON. Thank you very much.

I will turn to Senator Bob Graham. Do you have any questions, Bob?

Senator GRAHAM. Thank you, Mr. Chairman. I would like to commend you and Senator D'Amato for holding this series of hearings, which gives us an opportunity to focus early on this important issue and to be in an advanced position to deal with it early in the next Congress.

I have one question I would like to direct to my longtime friend and former colleague in the National Governors' Association, Mr. Ray Scheppach.

Ray, both the candidates for President are underscoring the central responsibility of the next administration dealing with the Federal deficit. Vice President Bush has used the term "flexible freeze," which appears a holding in place of the Federal expenditures, with some reallocation possibly within the current pattern of expenditures.

From the perspective of a State organization that looks broadly at issues of federalism, how would you rate housing in comparison to education, health, welfare, other aspects of the State-Federal

mix, and if Congress is dealing 6 months from now with a need to reallocate within a fixed total amount of funds for the State, where would you recommend housing fall in that reallocation?

Mr. SCHEPPACH. As you know, as I read the state of the State addresses, housing clearly is becoming a major priority for governors.

I also think it has traditionally been much more of a Federal responsibility, along with other low income programs. Because it is an income reallocation like food stamps and other programs, I think it has to stay as a national priority at the Federal Government level.

Education has traditionally been a local and a State government issue, and I think it ought to remain there. There is some additional role for the Federal Government in terms of direct subsidies to students, and so on, but I think it should be restrained to that.

I believe education should remain a national priority, but under State program responsibility. But I do think that housing, from what we have seen in the last 5 or 10 years, has increased as a priority. It is a Federal responsibility, and I put it up in the same category with health and welfare programs.

Senator CRANSTON. Thank you very, very much. That concludes our questions now, although we may submit questions in writing.

Thank you very much for being here. It is very helpful.

We will now turn to the second panel.

I thank you very much for your presence, and I want to repeat what I have said before and what Al D'Amato said. We would like you to restrict your opening remarks to 5 minutes so that we have time to ask you questions.

Your full prepared text, if you have it, will appear in the record. There is a green light when you are going, a yellow light when you are getting close to the end, and then a red light at the end of the 5 minutes.

We will start with you, Ms. Rattley.

**STATEMENT OF JESSIE RATTLEY, MAYOR, NEWPORT NEWS, VA,
REPRESENTING THE U.S. CONFERENCE OF MAYORS**

Ms. RATTLEY. Mr. Chairman, members of the subcommittee, I would like to thank you for the opportunity to testify this morning on the Senate concept papers developed to provide discussion on a National Affordable Housing Act.

My name is Jessie Rattley. I am the mayor of Newport News, VA, and am testifying today on behalf of the U.S. Conference of Mayors, where I serve as chairman of the Community Development, Housing, and Economic Development Committee.

Mr. Chairman, I also would like to thank both you and Senator Alfonse D'Amato for your leadership over the past year in renewing hope for a new and vigorous commitment to housing in our Nation. Your initiative has brought about tremendous enthusiasm from mayors that our housing problems can be solved, and that our Nation is willing to make a commitment to this effort by trying new approaches and by providing new resources.

As a result, during the past year mayors have been at the forefront in developing ideas and recommendations for critically needed housing legislation. This effort of mayors and the policy

that has been developed will serve as the basis for my testimony this morning.

As you know, Mr. Chairman, last February, the U.S. Conference of Mayors, along with the Lyndon Baines Johnson School of Public Affairs, and the city of Austin, brought together more than 200 public and private sector leaders dedicated to the goal of decent, safe, and affordable housing for all Americans for a 3-day forum in Austin, TX.

Those who participated included the Nation's top housing developers, financiers, planners, and managers, as well as mayors from 20 major cities. Among the participants were the leaders and many of the members of the three national task forces—the National Housing Task Force, the National Low Income Housing Preservation Commission, and the Massachusetts Institute of Technology Policy Project.

FORCES OF THE FORUM

During the forum, we focused on six policy areas: Affordable rental housing; affordable ownership; housing needs of vulnerable populations; public housing; preservation of existing low income housing; and, rural housing.

Each policy area was examined from three points of view: (1) the need for all forms of housing for all Americans; (2) the initiatives and innovations that will be required to meet this need; and (3) the cost of the housing that is needed and the approaches that must be taken in both the public and private sectors to meet this cost.

At our recent annual meeting, mayors unanimously adopted the report that was developed from the Austin forum. Mr. Chairman, I ask your permission to submit for the record the U.S. Conference of Mayors' final report of the National Housing Forum.

Before going into our more detailed comments on the National Affordable Housing Policy, I would like to provide some context for our position in terms of the housing needs of our Nation and our Nation's cities. This will be left here.

The rate of homeownership in the Nation is declining. Rising costs have made it difficult for many Americans to purchase homes, especially first time home buyers. As of May 1988, the median cost of new houses in the United States was \$110,000; the median cost of existing housing was \$88,600.

Affordable rental housing is a vanishing resource in America. Between 1981 and 1987, the rents of low income housing increased 16 percent more than prices in general and now stand at their highest level in more than two decades.

Estimates of the homeless in this Nation range from 300,000—U.S. Department of Housing and Urban Development—to 3,000,000—National Coalition for the Homeless. A conservative estimate is that 800,000 people are currently homeless.

Hundreds of thousands of Americans could be displaced from low income housing units which are privately owned and federally subsidized. This could occur as a result of the expiration of section 8 project based subsidy contracts and mortgage prepayments on FHA section 221(d)(3) and 236,; and FmHA section 515 projects.

More than 800,000 families in the U.S. are on waiting lists to live in public housing. Meanwhile, the deferred maintenance of public housing has taken its toll. It is estimated that the modernization and restoration of the Nation's public housing will cost from \$10 to \$20 billion.

WIDE RANGE OF PROBLEMS

The rural areas of this Nation suffer from a wide range of problems, among them defective housing and high housing cost burdens for many residents, low educational attainment and high illiteracy rates, inadequate water and sewage disposal facilities in some areas, weak local economies in many areas, a disproportionate number of working poor, and an undiversified finance system, especially in remote and farm dependent areas.

The remainder of my testimony will follow the format of the National Housing Act, and I will address the comprehensive housing legislation.

First, homeownership affordability. We certainly agree that new housing should provide opportunities for first time home buyers and the FHA insurance should be made more equitable throughout the country.

We also believe that the new legislation should make a special effort to provide homeownership opportunities to those living in the inner cities, and in addition to focusing on the needs of low and moderate income families that this will provide, it will have an added benefit of stabilizing neighborhoods.

We should like to recommend that single parent households be targeted for homeownership opportunities in this new legislation.

We want to emphasize that homeownership should also be preserved. As you know, many elderly citizens are in danger of losing their homes that they have lived in for years, and the Affordable Housing Act should assist the elderly in preserving the ownership of their homes.

It is most important that we maintain the supply of low income housing. Working with a new Office of Affordable Housing Preservation in HUD, local governments as well as neighborhood-based not-for-profit organizations can play a strong role in preserving low income housing if given the opportunity to design alternative ownership options.

We also believe that it is critical that the Tax Reform Act of 1986 be modified to provide opportunities to craft creative, long term approaches to preserving low income housing projects.

The provisions covering recapture payments provide one opportunity for a long term solution to low income housing preservation. For example, in a situation in which an owner were required to pay a \$600,000 recapture penalty for payment, the owner would pay \$300,000, and the remaining \$300,000 payment would be forgiven if the owner sells to a nonprofit intent on preserving the building's low income character.

As for the "Investment in State and Local Housing Strategies," the concept paper devotes a good deal of discussion to the new HOME Corporation and the Housing Opportunity Partnerships [HOP] program.

The HOP appears to us to be a complicated approach to a housing block grant. We believe that the block grant design can and should be more direct.

In the limited discussions we have had, the concept has not been readily grasped, and we fear that it would take an inordinate amount of time to understand its use. Our own suggestion for the HOP program would follow the features outlined in the Rouse/Maxwell National Housing Task Force Report and our own concepts developed at the National Housing Forum.

Some of the features that we would like to see in a housing block grant program include:

A flexible approach that is multiyear in commitment so as to allow for appropriate planning and efficient use of resources which are predictable over time.

Federal dollars should be matched with dollars or in-kind contributions at both the State and local levels. The match requirement must be sensitive to the capacity of local areas to meet the match. Capacity indicators should include income, tax, and other revenue bases.

The mix of types of uses—generally, new construction and/or rehabilitation, size of units, et cetera—should be local choice based on local need.

Targeting to very low income and low income households and the preservation of lower income neighborhoods should be national priorities.

Local models of public, private, and community based partnerships working with such organizations as the Enterprise Foundation and Local Institutions Support Corp. [LISC] should be encouraged.

While we recognize that a number of these ideas are included in the concept paper, we would simplify the delivery system of the program. We would suggest a more straightforward grant approach to cities qualifying for assistance.

We also disagree with the formula allocation that would have 80 percent of the HOP program funds evenly divided between States and localities. We strongly believe that local governments should receive the largest share of these funds. A few States have developed exceptional programs in addressing low and moderate income needs.

It would be a mistake, however, to base a national housing policy on this record as evidence on what other States can or will do. It would seem that the proper state role would be similar to that in the Community Development Block Grant program where the States allocate funds to small nonentitlement jurisdictions.

I see the red light, and I will stop. We did have a comment on the specialties that we can maybe bring more of this out in the questions and answers.

[The complete prepared statement of Mr. Rattley follows:]



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STATEMENT BY

JESSIE M. RATTLEY
MAYOR OF NEWPORT NEWS

on behalf of

THE U.S. CONFERENCE OF MAYORS

before the

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

on

NATIONAL AFFORDABLE HOUSING ACT

SEPTEMBER 21, 1988

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developers, financiers, planners and managers, as well as mayors from 20 major cities. Among the participants were the leaders and many of the members of the three national task forces -- the National Housing Task Force, the National Low Income Housing Preservation Commission, and the Massachusetts Institute of Technology Policy Project.

During the Forum, we focused on six policy areas: affordable rental housing; affordable homeownership; housing needs of vulnerable populations; public housing; preservation of existing low-income housing; and, rural housing. Each policy area was examined from three points of view: (1) the need for all forms of housing for all Americans; (2) the initiatives and innovations that will be required to meet this need; and (3) the cost of the housing that is needed and the approaches that must be taken in both the public and private sectors to meet this cost.

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- o The rate of homeownership in the nation is declining. Rising costs have made it difficult for many Americans to purchase homes, especially first-time homebuyers. As of May, 1988, the median cost of new houses in the

United States was \$110,000; the median cost of existing housing was \$88,600.

- o Affordable rental housing is a vanishing resource in America. Between 1981 and 1987, the rents of low income housing increased 16 percent more than prices in general, and now stand at their highest level in more than two decades.
- o Estimates of the homeless in this nation range from 100,000 (U.S. Department of Housing and Urban Development) to 3,000,000 (National Coalition for the Homeless). A conservative estimate is that 800,000 people are currently homeless.
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- o More than 800,000 families in the U.S. are on waiting lists to live in public housing. Meanwhile, the deferred maintenance of public housing has taken its toll; it is estimated that the modernization and restoration of the nation's public housing will cost from \$10 to \$20 billion.
- o The rural areas of this nation suffer from a wide range of problems, among them: defective housing and high housing cost burdens for many residents; low

educational attainment and high illiteracy rates; inadequate water and sewage disposal facilities in some areas; weak local economies in many areas; a disproportionate number of working poor; and an undiversified finance system, especially in remote and farm-dependent areas.

Mr. Chairman, it is because of these problems that the U.S. Conference of Mayors believes that there is a critical need for new housing legislation. The concept papers on which this legislation will be structured are a good beginning. The remainder of my testimony, Mr. Chairman, will follow the outline of the concept papers of the National Affordable Housing Act. I will also briefly address the role that community development must have in comprehensive housing legislation.

HOMEOWNERSHIP AFFORDABILITY

We certainly agree, Mr. Chairman, that any new housing legislation should provide opportunities to first-time home buyers. And, we certainly concur that FHA insurance should be made more equitable throughout the country. We also believe, however, that the new legislation should make a special effort to provide homeownership opportunities to those living in inner cities. In addition to focusing on the needs of low and moderate income families that this will provide, it will have the added benefit of stabilizing neighborhoods. We would also recommend that single-parent households be targeted for homeownership opportunities in the new legislation.

Homeownership, Mr. Chairman, should also be preserved. As

you know, many elderly citizens are in danger of losing the homes that they have raised their families and have lived in for years. The National Affordable Housing Act should assist the elderly in preserving the ownership of their homes.

RENTAL HOUSING

It is most important that we maintain the supply of low-income housing. Working with a new Office of Affordable Housing Preservation in HUD, local governments as well as neighborhood-based not-for-profit organizations can play a strong role in preserving low income housing if given the opportunity to design alternative ownership options.

We also believe that it is critical that the Tax Reform Act of 1986 be modified to provide opportunities to craft creative, long-term approaches to preserving low-income housing projects. The provisions covering recapture payments provide one opportunity for a long-term solution to low-income housing preservation. For example, in a situation in which an owner were required to pay a \$600,000 recapture penalty for payment, the owner would pay \$300,000, and the remaining \$300,000 payment would be forgiven, if the owner sells to a non-profit intent on preserving the building's low-income character.

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limited discussions that we have had, the concept has not been readily grasped, and we fear that it would take an inordinate amount of time to understand its use. Our own suggestion for the HOP program would follow the features outlined in the Rouse/Maxwell National Housing Task Force Report and our own concepts developed at the National Housing Forum. Some of the features that we would like to see in a housing block grant program include:

- o A flexible approach that is multi-year in commitment so as to allow for appropriate planning and efficient use of resources which are predictable over time.
 - o Federal dollars should be matched with dollars or in-kind contributions at both the state and local levels. The match requirement must be sensitive to the capacity of local areas to meet the match. Capacity indicators should include income, tax and other revenue bases.
 - o The mix of types of uses -- generally, new construction and/or rehabilitation, size of units, etc. -- should be local choice based on local need.
 - o Targeting to very low-income and low-income households and the preservation of lower-income neighborhoods should be national priorities.
 - o Local models of public, private, and community-based partnerships working with such organizations as the Enterprise Foundation and Local Initiatives Support Corporation (LISC) should be encouraged.
- While we recognize that a number of these ideas are included

in the concept paper, we would simplify the delivery system of the program. We would suggest a more straightforward grant approach to cities qualifying for assistance.

We also disagree with the formula allocation that would have 80 percent of the HOP program funds evenly divided between states and localities. We strongly believe that local governments should receive the largest share of these funds. A few states have developed exceptional programs in addressing low and moderate income needs. It would be a mistake, however, to base a national housing policy on this record as evidence on what other states can or will do. It would seem that the proper state role would be similar to that in the Community Development Block Grant program where the state allocate funds to small non-entitlement jurisdictions.

The other features of the HOME Corporation are more direct, and we support these functions, especially the division of the corporation that would serve as a central point to facilitate the exchange of housing information among participating states and localities, conduct studies, reports, and provide technical assistance. Other activities that we like about this division are the assistance provided to non-profits and for-profits in meeting local, state, and national housing goals, promoting benevolent lending, and assisting in the establishment of privately owned, local community development banks to fund affordable housing activities.

SPECIAL NEEDS -- SUPPORTIVE HOUSING

We support the concept papers' approach to the special needs

of the elderly, the handicapped, the homeless, and low-income families with small children who are working to make a transition from dependence on welfare. With regard to the homeless, we are concerned about the calculations of the regional, state and local incidence of homelessness. Our concern is that if the distribution formula is dependent on the incidence of homelessness calculations, the funds may never be awarded because the data simply is not available. We also believe that it would be more effective if all programs of the McKinney Act, and not only the HUD programs, be included in a homeless block grant. This would allow local officials to plan for all the needs of the homeless in their areas, and to make sure that those needs are being met.

I would like to digress for a moment from consideration of the concept papers to strongly urge the Senate to pass the Stewart B. McKinney Homeless Act before the end of this session of Congress. This legislation is needed by local governments to continue to provide for the homeless.

Mr. Chairman, although the concept papers do not address community development, I would like to once again make clear the U.S. Conference of Mayors' strong support for the Community Development Block Grant program. We believe that this program will be of critical importance to the success of a new national housing policy, for housing must be thought of in the larger context of the neighborhood. The Community Development Block Grant program has proven itself an effective and dependable vehicle for addressing complex urban and neighborhood problems.

We strongly urge that the CDBG program, independent of any new housing programs, be strengthened with an increased authorization level in the new legislation.

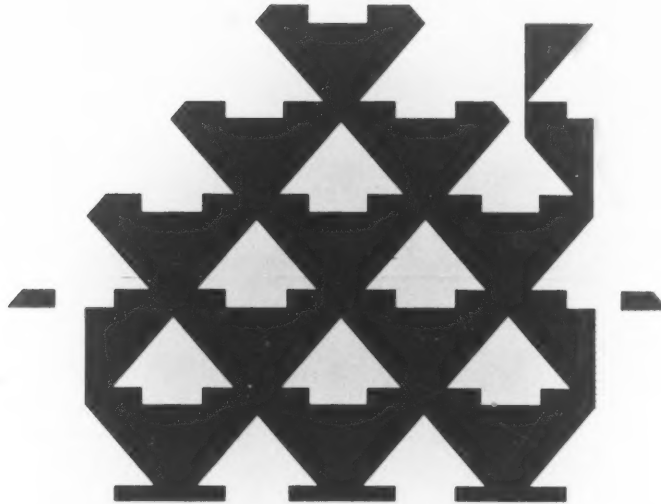
The U.S. Conference of Mayors looks forward to working with you, Mr. Chairman, and the members of your subcommittee as you draft the National Affordable Housing Act. We will be happy to provide you with any information requested as we move closer to a just, workable and affordable national housing policy. Thank you for this opportunity to share our views with you this morning.



NATIONAL HOUSING FORUM

Working Towards A Consensus

Final Report



NATIONAL HOUSING FORUM
February 3-5, 1988
Austin, Texas

Richard Berkley, Mayor of Kansas City (MO), President, The U.S. Conference of Mayors

Frank Cooksey, Mayor of Austin, Chair, Task Force on Housing Legislation, The U.S. Conference of Mayors

Max Sherman, Dean, Lyndon B. Johnson School of Public Affairs, University of Texas

Jessie Ratley, Mayor of Newport News (VA), Chair, Community Development, Housing and Economic Development Committee, The U.S. Conference of Mayors

* * *

CHAIRS OF WORKING GROUPS

Sheila Lodge, Mayor of Santa Barbara, Affordable Rental Housing Group

Theodore Mann, Mayor of Newton, Affordable Homeownership Group

Joseph Riley, Jr., Mayor of Charleston, Housing Needs of Vulnerable Populations Group

Anne Rudin, Mayor of Sacramento, Public Housing Group

Emmett Hutto, Mayor of Baytown, Rural Housing Group

Arthur Holland, Mayor of Trenton, Preservation of Existing Low-Income Housing Group

* * *

LEADERS OF NATIONAL TASK FORCES

James Rouse, Chairman, The Enterprise Foundation — National Housing Task Force

Carla A. Hills, former Secretary of the U.S. Department of HUD and Henry S. Reuss, former Chairman of the House Committee on Banking, Finance and Urban Affairs.*

Langley Keyes, Professor, Massachusetts Institute of Technology — MIT Housing Study Group

*J. Roderick Heller, President/CEO, The National Corporation for Housing Partnerships — represented the National Low Income Housing Preservation Commission at the Forum.

NATIONAL HOUSING FORUM: WORKING TOWARD A CONSENSUS

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"This nation is experiencing a housing crisis of enormous proportions, and the nation's leaders must acknowledge it and deal with it. We are prepared to help in every way we can, for it is clear that all levels of government and the profit and nonprofit sectors of our society share in the responsibility for resolving the crisis."

— *Mayor Richard Berkley of Kansas City,*
at the close of the National Housing Forum

INTRODUCTION

More than 200 public and private sector leaders dedicated to the goal of decent, safe, affordable housing for all Americans travelled to Austin, Texas on February 3 for an unprecedented three-day examination of the housing policy that is currently needed in this nation.

The goal of the Austin Forum, jointly sponsored by The U.S. Conference of Mayors, the City of Austin, and the Lyndon Baines Johnson School of Public Affairs at the University of Texas (the site of the event) was to seek a consensus on (1) the need for all forms of housing for all Americans; (2) the initiatives and innovations that will be required to meet this need; and (3) the cost of the housing that is needed and the approaches that must be taken in both the public and private sectors to meet this cost.

The Forum was made up of the nation's top housing developers, financiers, planners and managers, and included mayors from 20 major cities. Among the participants were the leaders and many of the members of the three national task forces commissioned by the Congress to develop housing policy alternatives for the future — the National Housing Task Force, the National Low Income Housing Preservation Commission, and the Massachusetts Institute of Technology housing study group.

Forum participants were organized into six working groups, each focusing on one aspect of needed housing policy:

- affordable rental housing;
- affordable homeownership;
- housing needs of vulnerable populations;
- public housing;
- preservation of existing low-income housing;
- rural housing.

Each of the working groups was chaired by a mayor and staffed by two housing and community development specialists. These specialists formed a drafting committee which met twice following the Forum to distill the products of the working groups and produce this document.

SUMMARY OF RECOMMENDATIONS

Each section of this document contains the National Housing Forum's detailed recommendations for specific elements of a national housing policy. Among the major recommendations of the Forum:

- A National Housing Block Grant funded at \$4 billion per year; this would be matched with funds or in-kind contributions at both the state and local levels.
- A new housing production program for privately owned housing for low- and moderate-income households. The initial goal of this program would be to produce 100,000 units of affordable rental housing per year at an annual cost of approximately \$1 billion.
- A Housing Entitlement Program targeted to households earning less than 50 percent of the nation's median income; this program would be phased-in over a ten year period at an annual incremental cost of approximately \$2 billion.
- An increase from 1.5 million to 2.5 million housing starts a year over the next five years, and an increase in the nation's homeownership rate of one percent per year for all families, with special emphasis on first-time homebuyers and single-parent households.
- Funding of \$21.5 billion for modernization and restoration of public housing; this would occur over a five year period at a cost of approximately \$4 billion per year. (It is also recommended that the problems of the 50-60 severely troubled public housing projects which dominate the nation's perception of public housing be confronted).
- Funding of a 50,000 unit annual production level for public housing.
- A moratorium on the approval of all prepayment applications from owners of properties under the Federal Housing Administration Sections 221 (d) (3) and 236 programs, and the Farmer Home Administration Section 515 program.
- To respond to the immediate needs of the homeless, an additional 300,000 shelter spaces per year for the next three years; this would require \$1 billion per year for shelter space — transitional housing or temporary shelter, depending on local needs — and related food, medical and social services.

AFFORDABLE HOMEOWNERSHIP

The rate of homeownership in the nation is declining. Rising costs have made it difficult for many Americans to purchase homes, especially if they are first-time homebuyers. As of May, 1988 the median cost of new houses in the United States was \$110,000; the median cost of existing housing was \$88,600.

In a national housing policy, the federal government should reaffirm and rekindle a commitment to homeownership. No one should be denied the opportunity of homeownership, regardless of his or her economic circumstances. In contrast to present mortgage interest deductions, where high-income homeowners receive a disproportionate benefit, federal assistance for homeownership should be progressive, according to need, and should be responsive to regional differences.

In inner-cities, homeownership should be encouraged because of its stabilizing effect on neighborhoods. Single-parent families should be provided with homeownership opportunities, coupled with support services such as child care.

Homeownership should be preserved, especially among the elderly who are in danger of losing their homes, and support services such as elderly care should be provided to them as well. Where feasible, linkage payments and services from market-rate developments could be used to provide support services.

POLICY RECOMMENDATIONS

There are many approaches that can be used to provide for homeownership, and federal assistance should be made available to support local innovation. The National Housing Forum recommended that housing starts be increased by one million per year for the next five years, and that the homeownership rate be increased by one percent per year for all families, with special emphasis on first-time homebuyers and single-parent households. The efforts of non-profit groups should be encouraged and assisted through a national housing policy which includes federal funding within the context of a local homeownership plan. The adaptive reuse of abandoned public buildings such as schools, and the establishment of cooperatives are other examples of local innovations that should be encouraged.

To reduce the cost of housing and increase the rate of homeownership, new technologies should be employed and local housing regulations should be reviewed. Modular, manufactured and factory-built housing offer lower cost construction options. Changes in local building codes and zoning ordinances — for example, allowing in-fill programs (not a large land area) could lead to more housing that is less costly.

To increase funds available for housing, a number of new directions are suggested. A review of banking practices, including balance requirements, could encourage more mortgage money. Federal guarantees which would make access to pension funds possible could substantially increase funds available for home mortgages, and also expand current investments in mortgage securities like FNMA.

The National Housing Forum acknowledged the extensive federal role that already exists in support of home mortgage finance, and recommended that this role be reviewed and refocused to better address the needs of low- and moderate-income families. The National Housing Forum recommended a national policy that would:

- endorse and retain current programs that work, specifically FHA, mortgage revenue bonds and the government-supported secondary mortgage market; these programs should reaffirm their public purpose and eliminate disincentives such as high fees and lengthy processing time.
- use existing federal government support programs such as the Federal Housing Administration, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association to provide moderate-income families with assistance.

AFFORDABLE RENTAL HOUSING

Affordable rental housing for low- and moderate-income households (defined here as households earning less than 115 percent of median income), is a vanishing resource in America. In all aspects — real rents, rental cost burden, and pure supply and demand — the problem is growing in alarming proportions.

Between 1981 and 1987, with the supply of low-income rental units diminishing, rents increased 16 percent more than prices in general, and now stand at their highest level in more than two decades. Households paying 30 percent or more of their income for rent increased substantially by 1983. The problem is particularly severe for very low income households: 55.6% paid 30% or more of income for rent in 1983 compared with 48.5% in 1975.

STRUCTURES TO MEET THE NEED

There is a clear need for flexibility in future solutions to the affordable rental housing crisis. Solutions should include an increase in resources, and maximum local control in the context of clear national housing objectives and standards. High growth, high demand areas of the country need production programs to meet the need for affordable rental housing. Areas of slow or no growth which are experiencing the abandonment of rental housing stock and the continued deterioration of occupied housing need rehabilitation programs.

The flexible approach recommended by the National Housing Forum is a national housing block grant with the following features:

- It must be multi-year in commitment to allow for appropriate planning and efficient use of resources which are predictable over time.
- Federal dollars should be matched with dollars or in-kind contributions at both the state and the local levels. The match requirement must be sensitive to the capacity of certain state and local areas to meet the match. Capacity indicators should include income, tax and other revenue bases.
- An entitlement distribution system must recognize both poverty indicators and housing cost indices; this is very important to the equitable distribution of scarce public resources.
- The mix of types of uses — generally, new construction and/or rehabilitation, size of units, etc. — should be local choice based on local need.

- Targeting to very-low-income and low-income households and the preservation of lower-income neighborhoods should be national priorities.
- Among the threshold requirements for local participation must be systematically developed plans and a local review of building and housing codes and zoning ordinances to insure streamlined local standards and regulations.

It was the consensus of the National Housing Forum that local models of public, private, and community-based partnerships working with such organizations as the Enterprise Foundation and the Local Initiatives Support Corporation (LISC) should be encouraged throughout the nation. This "new wave" of nonprofit housing development by community development corporations, unions, religious organizations, tenant cooperatives and others must be encouraged on a national level, capacity-building to increase the number and expertise of these organizations at the local level must be included in any national housing policy.

The forum called for the creation of a new production program for privately owned housing for low- and moderate-income households. This program would feature both front-end subsidies to reduce initial development costs as well as operating subsidies to ensure that the housing constructed or rehabilitated remained available and affordable to low- and moderate-income households for its useful life. Although non-profit sponsors would be encouraged to continue to be producers of affordable rental housing, the private for-profit sector must be enticed back into the production of affordable rental housing if we are to meet the growing crisis caused by declining supply. This program would re-involve the private sector in meeting the affordable rental housing crisis. The initial goal of this program would be to produce 100,000 units of affordable rental housing per year at an annual cost of approximately \$1 billion. Local governments would be the conduit for the flow of funds between the Federal government and the private sector.

Any solution to the affordable rental housing problem in this country must also recognize the extreme rental cost burden for households earning less than 50 percent of the median income, and that solution must include a housing entitlement program at the federal level. It is recommended that this housing entitlement be targeted to those with the lowest incomes so that they would pay a small proportion of their income for rent. In order to achieve this goal, this program would be phased-in over a ten year period at an annual incremental cost of approximately \$2 billion.

Participants in the National Housing Forum agreed that many of the existing assisted housing programs have been successful, and that it is important to revisit Section 8 and other programs, to identify those elements that can be used in solutions to the rental housing needs of the future.

Federal, state and local public dollars cannot meet the current demand for affordable rental housing in this country. "Social capital" (foundation grants, union pension funds, church endowments), as well as private investment dollars must be leveraged with these public resources if we are to succeed in housing our nation's poor and working poor, and our moderate-income households. Incentives to encourage this private and quasi-public investment must be part of any national housing policy.

FINANCING THE NEED

The National Housing Forum emphasized that the federal resources available for housing each year must never be less than the current level of funding. Annual federal resources for housing include the homeownership mortgage interest deduction. If there are any attempts to further cap the mortgage interest deduction, those dollars should remain to support housing.

But additional resources will be required, and at the federal level, all potential approaches to meeting the need must be explored. This could range from changing the current federal spending priorities to increasing taxes.

The search for new, dependable and steady revenue sources should include the possibility of imposing property transfer taxes and gasoline taxes at some level of government. The level of government at which those new taxes would be imposed should be determined by a rigorous analysis of the impact that the taxes would have at each level.

Tax incentives, including tax exempt bonds, the low income housing tax credit and the historic rehabilitation credit, should be retained and/or reauthorized. Every effort should be made to simplify and ease access to those credits so that their use does not increase the cost of producing the assisted housing unit. Ways to reduce transaction costs at all levels of public and private involvement should be studied.

Incentives to increase the supply of affordable rental housing must include support for the continued involvement of federal insurance and secondary market programs. Investment in low-income multi-family rental housing should be encouraged.

The Community Reinvestment Act formula incentives should be reviewed and analyzed to determine opportunities to increase lender participation with low- and moderate-income households, as well as neighborhood reinvestment. The Act's provisions should not be allowed to exacerbate gentrification of neighborhoods to the detriment of low- and moderate-income families residing in those neighborhoods. Exploration of FSLIC incentives that would encourage Savings and Loans institutions to turn over repossessed properties to non-profits for redevelopment should be encouraged.

The absolute need for annual starts on new affordable housing that would alleviate the rental housing crisis for lower-income households must be quantified. Beyond this, the National Housing Forum recommended that a new national housing policy must:

- include national goals addressing the affordable rental housing needs of low- and moderate-income people and the lack of available, acceptable housing stock; and
- identify annual goals of people to be assisted and low- and moderate-income units to be added or preserved over a 5-10 year period.

THE HOUSING NEEDS OF VULNERABLE POPULATIONS

THE POPULATIONS

Homeless

Estimates of the homeless in this nation range from 300,000 (U.S. Department of Housing and Urban Development) to 3,000,000 (National Coalition for the Homeless). A conservative estimate is that 800,000 people are currently homeless. This group is made up of the chronic homeless — those with chronic mental and physical problems who require not only affordable housing, but also long term medical and mental health care, social services, and job training and placement services — and the economically homeless who may not require services, but who do need affordable housing.

At Risk of Becoming Homeless

In addition to those who are actually on the streets, a large number of people are at risk of losing their homes. These are people in households with income below the poverty line who are paying more than 50 percent of their income for housing; in 1985 there were six million such households. This group can become homeless if they incur unforeseen medical bills or other emergency household costs, or lose their source of income. Many of these cost-burdened households receive welfare. In 1986, there were 3,750,000 families receiving Aid to Families with Dependent Children (AFDC); only 21 percent (787,000) received other housing assistance.

Frail Elderly

The frail elderly are generally defined as people aged 65-years or older who are at risk of requiring institutionalization in the absence of support services. The definition of the frail elderly takes into consideration the number and type of daily activities that the individual cannot perform without the assistance of another person. Because there is no single, unanimously-accepted definition, estimates of the population of frail elderly not in nursing homes range from a low of roughly 500,000 persons to a high of about 2,800,000.

In contrast, the number of elderly in nursing homes is known, but obtaining an accurate count is complicated by the fact that an unknown proportion of these institutionalized older persons are believed to be "inappropriately institutionalized." Estimates of frail elderly in institutions range from a low of 60,000 to a high of 240,000. A low estimate of inappropriate institutionalization is around five percent; a high estimate is 20 percent.

The frail elderly population is expected to double in size by the year 2020.

Chronically Mentally Ill

Individuals with serious and long-term mental disorders that impair their capacity for self-care, interpersonal relationships, work or schooling are termed chronically mentally ill. Unlike past periods when most of these persons were in institutions, it is now estimated that two-thirds to four-fifths of the 1.5-2.5 million chronically mentally ill live most of their lives in the community.

Unfortunately, little is known about the proportion of this population that is ill-housed; the only estimate in the literature places 200,000 persons in this category. To this number must be added approximately 200,000 others who are homeless."

PRIORITIES

- The basic needs of the homeless on the streets — for shelter, food, health care and other services — must be met immediately.
- The differing needs of those in shelters must be recognized and addressed as appropriate.
- The needs of the large number of families and individuals who are at risk of becoming homeless must be addressed or the homeless population will continue to grow, no matter what is done for those currently homeless.
- In addition to housing, many people in vulnerable populations need services of various kinds and durations. Without these services, it is unlikely that such people will be able to sustain themselves independently, no matter how appropriate or affordable the housing available to them. Similarly, it is unlikely that the services provided to them will have the desired impact unless their housing needs are addressed. Historically, at national, state and local levels, housing and service programs have not been coordinated in design or implementation. For housing and service programs to be effective in meeting the needs of vulnerable populations, this must change.

POLICY RECOMMENDATIONS

Federal housing programs (principally those of the Department of Housing and Urban Development and the Department of Health and Human Services) should be coordinated and rationalized. HUD spends approximately \$12 billion each year on housing; HHS spends about \$10 billion. These housing programs are pursued in isolation from one another and achieve very different results: HUD-assisted housing is generally in better physical condition and more affordable.

The HHS housing allotment in income assistance programs is generally less than half the payment permitted in HUD programs. Since the HUD payment is supposed to represent the minimum required to secure decent, safe, sanitary and affordable housing in particular markets, the HHS payment should be brought up to the same level. HHS payments can now be used to subsidize substandard housing; this should no longer be permitted.

The most immediate need is the creation of decent living space for those now on the streets or in inadequate shelters; responding to this need requires the creation of an additional 300,000 shelter spaces each year for the next three years. This is probably the extent of our capability, and will make a significant contribution to housing those on the streets.

Because there are many approaches to temporary shelter or transitional housing which will work in most situations, the kind of shelter to be developed should be decided locally. In some communities, existing buildings lend themselves to conversion; in others, it will be necessary to build new structures. In some communities, vacant public housing units can provide part of the needed space; in others, it may make more sense to use mobile homes.

The National Housing Forum proposes a funding level of \$1 billion per year for the next three years to create a total of 900,000 shelter spaces and to provide the associated food, medical and social services. Two-thirds of this funding should be provided by the federal government; the balance should be provided by state and local governments.

For a variety of reasons, the number of single room occupancy units (SROs) has declined over the past 20 years. These units provided living space for those who did not need and/or could not afford a separate bathroom or kitchen. As these units disappeared, many people living in them became homeless. This trend must be reversed. Changes must be made in local zoning, building and housing codes to encourage the creation of SROs and the preservation of existing units.

Every effort must be made to ensure that a homeless individual or family's stay in a shelter is as short as possible, and those in shelters must be given priority in placement in permanent housing programs. A certain percentage of the units developed in assisted housing programs must be made available, on a priority basis, for those in shelters.

The federal government should foster and fund cooperation at the local level among housing providers and those who provide social, medical, job training, and other support services. The goal of this cooperation is to prevent homelessness in the first place, and to provide those who become homeless with the coordinated services they need to become permanently housed.

PRESERVATION OF LOW-INCOME HOUSING

As the 20th century draws to a close, hundreds of thousands of Americans could be displaced from low-income housing units which are privately owned and federally subsidized. This could occur as a result of the expiration of Section 8 project-based subsidy contracts and mortgage prepayments on FHA Sections 221(d)(3) and 236, and FmHA Section 515 projects.

As Section 8 contracts expire, private landlords will have the option of offering their apartments for rent at market levels. Similarly, when owners become eligible to pre-pay their mortgages, many may opt to convert their buildings to a high income use. As for expiring Section 8 contracts, some low-income housing advocates fear a loss of hundreds of thousands of units affecting one million low-income tenants. A recent study by the National Low Income Housing Preservation Commission predicted that out of an inventory of 645,000 units of Section 221(d)(3) and Section 236, 280,000 units will default "because of financial difficulties or deterioration" and 243,000 units will prepay. The Government Accounting Office estimates that the FmHA Section 515 inventory could be reduced to 144,000 units.

POLICY RECOMMENDATIONS

Efforts to preserve threatened low-income units are grounded in the premise that once these units are lost to the low-income inventory, they will never be returned. Thus, preservation measures must help willing owners maintain their projects for low-income households, and must create opportunities for others to take control when incentive measures fail.

Preserving these low-income units is an urgent problem, and while preservation measures are being designed and debated, many investors will likely decide to prepay. The National Housing Forum sees an immediate need for legislative action to address (1) a moratorium on prepayment applications, (2) relaxing federal rules to save threatened buildings, (3) selling buildings to occupants or non-profit groups, (4) maximizing flexibility at the local level, and (5) modifying the 1986 tax law to preserve the low income character of buildings.

Moratorium on Prepayment

The National Housing Forum recommends an immediate moratorium on the approval of all prepayment applications from investors. This moratorium should cover all categories of threatened low-income housing, including the FHA Sections 221(d)(3) and 236, and Section 515 projects. Drafting preservation measures will take time. Absent a moratorium, thousands of units could be lost to the low-income inventory, and tens of thousands of poor people could be displaced.

A moratorium institutes a holding pattern. It sends a signal throughout the country that a crisis exists, and that the federal government will work with its investment partners to stem the crisis.

Congress developed a response to the threatened loss of low-income housing through prepayment in the 1987 Housing and Community Development Act; this provides for a moratorium should the plan of action for prepayment authorized by the legislation be legally invalidated.

Relaxing Federal Rules

While the moratorium takes effect, Congress must take action to help investors keep and maintain their projects, wherever and whenever they are willing to do so. Many investors would preserve their projects as low-income if a reasonable profit could be made. However, strict government regulations and rising costs often conspire against these owners.

When an owner is willing to keep the building as a low-income resource, the key is the removal of obstacles to investment and profit. To this end, Congress should take immediate action to:

- mandate that HUD permit investors to generate additional resources for refinancing mortgages if the housing will be maintained as low-income past the prepayment allowance date;
- revise rental rehabilitation guidelines to permit owners to use existing equity to qualify for rental rehabilitation assistance; and
- provide project-based subsidies directly to buildings which face default once the Section 8 contract expires. In many neighborhoods, market rents are so low that owners could not afford to maintain their buildings without continuing project-based subsidies.

Selling Buildings

Many owners will be unwilling to preserve their buildings as low-income regardless of the existence of these preservation opportunities. In these cases, more stringent measures are needed to save the buildings for low-income tenants. Congress should take action to:

- authorize HUD to convey these properties to other profit or not-for-profit investors. Low-income housing cooperatives and mutual housing associations present the most likely ownership alternatives for preserving the low-income character of threatened buildings;
- authorize appropriations for project-based subsidies directed to each and every building being conveyed from the original owner. Absent this subsidy, the necessary capital to save the building from default or future economic problems will not exist.

Maximizing Flexibility

The key to stimulating reinvestment in low-income projects is maximizing flexibility at the local level; this encourages greater government and business participation. Local and state governments as well as neighborhood-based not-for-profit organizations can play a much stronger role in preserving these units if given the opportunity to design alternative ownership options.

Congress should take action to mandate that HUD:

- provide qualified non-profits groups or government agencies the right-of-first-refusal to gain ownership of threatened low-income buildings;
- encourage local governments to work with non-for-profit developers to create alternative ownership options;
- encourage local utilities to work with local governments to reduce rates on buildings benefiting from measures to retain their low-income character; and
- work with local and state governments to create other long-term solutions which maximize local flexibility to respond to changes in the market and in investor behavior.

Modifying the Tax Law

Rather than providing opportunities to craft creative, long-term approaches to preserving low-income projects, the Tax Reform Act of 1986 opened the door for default and prepayment problems. The provisions covering recapture payments provide one opportunity for a long-term solution to low-income preservation. These provisions should be rewritten to facilitate a change in ownership to not-for-profit developers willing to preserve the low-income character of the property.

For example, in a situation in which an owner were required to pay a \$600,000 recapture penalty for prepayment, the owner would pay \$300,000, and the remaining \$300,000 payment would be forgiven, if the owner sells to a not-for-profit intent on preserving the building's low-income character.

Congress should investigate other obstacles to preserving low-income assisted units, and take action to remove these obstacles.

PUBLIC HOUSING

There are currently more than 1.3 million families living in public housing units owned and administered by 3,060 local public housing authorities. It is estimated that these local public housing authorities maintain waiting lists containing nearly 800,000 families who want to live in public housing.

Public housing accounts for about five percent of rental housing in the nation, and in several major central cities, it accounts for as much as eight to 15 percent of all rental housing. According to a recently published study, the national average wait for public housing is about 13 months. For about nine percent of all public housing authorities, the wait exceeds three years, and in some cities, it is considerably longer.

While public housing authorities exist throughout the country, they are more heavily concentrated in the southeast and southwest. The average public housing authority manages about 403 units. Eight percent of PHAs own and manage between 500 and 1,250 units. The remaining 5 percent of PHAs manage more than 1,250 units. In this group, there are 150 PHAs managing 60 percent of the nation's public housing; the 15 largest public housing authorities in this group manage 30 percent of the public housing units in the country. The smallest public housing authorities control fewer than 6 percent of all public housing units.

Public housing suffers from a serious image problem. The common perception is that public housing projects are large, ugly buildings constructed with minimum design specifications, and that they are badly maintained and poorly managed. In fact, less than 28 percent of all public housing developments are high-rise buildings. Garden apartments account for 32 percent of public housing, and low-rise, walk-up apartments account for 16 percent. Twenty-five percent of the public housing units are single-family detached buildings.

CONDITION OF PUBLIC HOUSING PROJECTS

Public housing is middle-aged stock, the median age of buildings being about 26 years. For many projects, this means that replacements or repairs of roofs, heating systems and plumbing, and modernization of kitchens and bathrooms are necessary. Deferred maintenance has taken its toll. While some modernization efforts have been undertaken, a great deal of work remains.

The difficulties of public housing go beyond the physical conditions of the buildings: High operating expenses and low rental income are major problems. Rental income is insufficient to cover heat, maintenance and capital improvements.

POLICY RECOMMENDATIONS

Despite these problems, the public housing program is a viable way of providing housing. The National Housing Forum recommends a national policy on public housing based on the following:

- Local flexibility is essential to meet the needs of existing public housing developments and their tenants. There must be flexibility in the areas of:
 1. determining income mix and eligibility
 2. tenant participation in management
 3. rent-setting
 4. homeownership experimentation
 5. structuring long range modernization programs
- Local accountability is essential in the following areas:
 1. adequate basic city services, particularly security
 2. stable and competent management
 3. concern and involvement of local elected officials and community leaders
- Resident leadership and participation must be encouraged and nurtured if tenant accountability is to be achieved.
- The federal government must be accountable in a number of areas:
 1. Operating subsidies must be both sufficient and dependable. The current erratic and inadequate nature of operating subsidies result in housing authorities routinely eliminating essential maintenance and security services.
 2. Modernization funding must be revamped to accumulate sufficient capital and replacement reserves on a long-term basis. The National Housing Forum also recommends that the funding of the HUD commissioned study conducted by ABT calling for \$21.5 billion to restore public housing be adopted as a goal in a national housing policy. This modernization and restoration of the nation's public housing stock should occur over a five-year period at a cost of approximately \$4 billion per year.
 3. Social services must be provided to those living in public housing.
- Both federal and local government must have the courage to deal with the 50-60 troubled projects which threaten the public housing program, as well as the past mistakes that have resulted in creating a negative image for the program. HUD and the Congress should not hamper the ability of the PHAs to deal with unmarketable housing, if justifiable.
- There will always be a need for a certain amount of publicly-owned housing. Local flexibility in structuring new public housing development programs can lead to a successful response to affordability problems. The National Housing Forum urges a 50,000 unit annual production level for public housing.

CHARACTERISTICS OF PUBLIC HOUSING RESIDENTS

Residents of public housing tend to be poor. In fact, the income of public housing tenants has fallen significantly over the last 30 years. Between 1950 and 1970, the median income of public housing residents fell from 64 percent to 37 percent of the national median. Between 1974 and 1981 there was an increase in residents of public housing with incomes between 10 and 30 percent of the national median; residents with incomes over 30 percent of the median fell from 36 percent to 31 percent.

In 1980, public housing tenants had an average income of \$6,803.00. Elderly and disabled households who comprise about 38 percent of all public housing residents had incomes of \$5,557.00. Family household income was \$7,169.00.

About half of the non-elderly tenants who live in public housing are single parent households. Of those families, 42 percent contain one or more working adults.

Thirty-eight percent of public housing tenants are white; 49 percent are black; 13 percent are hispanic and other minorities. It is significant to note that 85 percent of households who live in the large family projects are minority. The income levels of blacks and whites who live in public housing do not differ significantly.

RURAL HOUSING

The rural areas of this nation suffer from a wide range of problems, among them: defective housing and high housing cost burdens for many residents; low educational attainment and high illiteracy rates; inadequate water and sewage disposal facilities in some areas; weak local economies in many areas; a disproportionate number of working poor; and an undiversified finance system, especially in remote and farm-dependent areas.

Rural areas also have strengths on which to build: pride of place, tight family ties, concern for neighbors, and traditional attitudes about hard work and thrift. These attributes, along with a preference for low-density living, continue to hold many residents in, and attract others to, rural communities.

HOUSING NEEDS

Nonmetro households comprise just under one-third (31 percent) of all U.S. households — about 28 million households at the end of 1987. And these rural families had more than their share of substandard housing.

Nonmetro areas have about four million households living in crowded or physically inadequate dwellings, houses without full plumbing or kitchens, with leaking roofs, frequent breakdowns in the heating or electrical systems, or other defects. In fact, about 44 percent of the nation's substandard dwellings are in nonmetropolitan areas.

About three million low-income households in nonmetro areas pay burdensome portions of their income for housing. Most of these cost-burdened families are renters, but more than one million are homeowners. Almost 750,000 very-low-income renters in nonmetro areas paid 50 percent or more of their income for rent in 1983.

Special Problems

In our nation's rural areas, minorities and farm workers face special housing problems:

- Black and Hispanic families have a disproportionate share of substandard housing and heavy cost burdens for shelter in rural areas.
- Native Americans — American Indians, Eskimos and Aleuts — are among the worst-housed people in the nation. There is much crowding, doubling-up and tripling-up among Indian families. Some 90,000 American Indian families are reported in need of housing assistance, including 60,000 who need new homes.

Senator CRANSTON. Thank you, Ms. Rattley.

**STATEMENT OF WALTER WEBDALE, PRESIDENT, ASSOCIATION
OF LOCAL FINANCE AGENCIES, WASHINGTON, DC**

Mr. WEBDALE. Mr. Chairman and members of the subcommittee, I am Walter Webdale, director of housing and community development for Fairfax County, VA and president of the Association of Local Finance Agencies, [ALHFA], on whose behalf I am appearing today.

We appreciate this opportunity to appear before you today and comment on the staff concept papers for the National Affordable Housing Act.

I have a more lengthy statement I would like to summarize at this time and have you include it in full for the record.

I want to commend you, Mr. Chairman, for your tremendous leadership in helping to restore the issue of affordable housing for moderate and low income people, to its rightful place on the national agenda. I want to take this opportunity to commend your staff for their efforts to seek out our comments as the staff papers were being prepared.

I do want to note that the concept papers do not address the compelling need for the interaction between the Tax Code and investment strategies program proposed in the papers. It is dependent on tax incentives, particularly in the area of affordable rental housing.

I want to spend the bulk of my time commenting on the homeownership and rental housing provisions. I do want to note, however, our general support for the preservation, rental assistance, and special housing needs provisions in the papers.

Under homeownership affordability. As you undoubtedly know, next to having adequate monthly cash flow to support a mortgage the greatest difficulty faced by the low income prospective homebuyers is scraping up the downpayment.

The staff concept papers properly address both problems, first, by proposing a 4-year extension of the authority to issue tax-exempt mortgage revenue bonds and mortgage credit certificates and, second, by making it easier to finance the downpayment.

MORTGAGE REVENUE BOND PROGRAM

The mortgage revenue bond program serves as a key tool utilized by local housing finance agencies to provide the below-market mortgages for low and moderate income first time home buyers, those whom the conventional mortgage markets leave behind. An extension of the December 31, 1988 "sunset" on authority to issue mortgage revenue bonds is critical.

ALHFA is particularly pleased to note that the proposal calls for replacing the current national ceiling on FHA-insured mortgages with a ceiling which includes State or sub-State ceilings. The current national ceiling, as you, Mr. Chairman, and Senator D'Amato well know, has rendered the FHA program largely unworkable in many high housing cost areas, such as the New York metropolitan area, Los Angeles, and San Francisco.

We likewise support the easing of downpayment requirements under the FHA program. We believe the additional opportunities for access to affordable housing by lower income individuals far outweighs the possibility that they may be a greater credit risk.

ALHFA also supports extension of FHA insurance to certain adjustable rate mortgages as proposed, and removal of the statutory limit on the aggregate number of loans to be insured in a single year.

In addition, as we pointed out in our submission to the subcommittee last October, to overcome the deterioration of FHA over the past 8 years, Congress should renew FHA's mandate to participate fully in the housing insurance and guarantee program. Also, Congress should not privatize FHA nor restrict its operation with volume limits, additional fees, or income targeting.

ALHFA supports creation of an Office of Affordable Housing Preservation, as proposed in the staff concept papers, responsible for administering laws and providing leadership on issues that affect the continued low income affordability of rental housing. Such an office will serve as a visible focal point for needed Federal efforts to provide leadership and technical assistance in response to a continuing national problem.

We also support the requirement that each State and locality participating in the HOP program include in its housing strategy a description of the steps it will take to continue the low income affordability of federally assisted housing within its jurisdiction.

However, this requirement should be qualified with language, "to the extent resources are available," so as not to create the expectation that the localities should necessarily use their HOP assistance—thus destroying the flexibility of this assistance—or that they will be forced to commit other non-Federal funds. This is an area where a predominant Federal and supportive State and local role is critical.

Investment in State and local housing strategies. This portion of the staff concept papers is one on which ALHFA has provided extensive comment both individually and through the August 1988 "Housing and Community Development Policy Precepts" proposed by ALHFA, the U.S. Conference of Mayors, National League of Cities, National Association of Counties, National Association of Housing and Redevelopment Officials, and the National Community Development Association.

We are aware that the subcommittee has received testimony critical of the HOP "investment certificate" approach as opposed to the housing block grant proposed by the National Housing Task Force.

By way of comment on this, ALHFA proposed a housing block grant in its October 5, 1987 submission to the subcommittee. Thus, we are on record in support of a block grant.

However, if it is the subcommittee's judgment that the investment certificate approach is politically more salable, we are prepared to support it.

The point is, Mr. Chairman, that due to the tremendous decline in direct expenditures for low income rental housing, coupled with the new restrictions on tax-exempt rental housing bonds and associated real estate incentives, local governments are desperate for

any assistance from the Federal Government—be it a block grant or long term loans.

Having said that, the following are elements of the staff proposal which we find well-suited:

SUPPORT FOR STAFF PROPOSAL

Characterizing the program as an investment in housing strategies, with the notion that there is long term public commitment to housing the poor;

We support assistance which is flexible in use, however, the provision on page 22 which limits to 25 percent the amount of funding which can be used for publicly owned housing should be deleted as inconsistent with the notion of maximum flexibility and local discretion. The decision to fund publicly owned projects should be left to the locality;

We support excluding the investment certificates as debt of the participating jurisdiction;

Allocating the assistance by formula directly to local governments meeting a formula amount threshold;

Waiving repayment of principal if the housing remains affordable for its useful life or, if converted to another use, requiring that it be replaced on a one-for-one basis without Federal assistance;

Requiring development of a multiyear housing strategy describing housing needs, how those needs are to be addressed, State and local efforts to reduce housing costs, leveraging, and minority housing opportunities;

Locating responsibility with the jurisdiction's chief executive for deciding whether to participate in the program, developing strategy design, and identifying implementing agency[ies]; however, provision should be made for public agencies—independent—i.e., not responsible to the chief executive—housing authorities/housing finance agencies—to participate and receive 100 percent of the subscription share should the chief executive decline;

Recognizing the need for and providing a program of credit enhancement, as you realize credit enhancement is the very foundation of providing affordable housing;

Building on the considerable housing finance expertise which resides in local and some State housing finance agencies; and

Establishing a new corporation [HOME] within HUD which would be relatively free from the traditional way of doing business. However, provision should be made to ensure its independence and autonomy as a separate corporation.

The definition of what constitutes affordable housing rent limitations, unit set-asides for low income tenants, income restrictions for occupants of market rate units, and nondiscrimination against section 8 certificate or voucher holders are all concepts which ALHFA supports.

However, we must point out that there is a direct relationship between the extent of income targeting, and thus rents generated, and project financial feasibility. We also strongly believe that explicit provision should be made permitting an adjustment to the targeting requirements in areas of high housing costs relative to income.

As to the establishment of fair market rents, the special needs section of the proposal permits localities to set fair market rents which can be used in lieu of HUD-established fair market rents. We support this and suggest it also be permitted in the HOP program.

SET-ASIDE FOR NONPROFITS

ALHFA also supports the minimum 10 percent set-aside for non-profits as well as the reallocation provisions if the set-aside cannot be utilized.

The matching requirements are also generally acceptable and present a number of options which will not make them burdensome on financially hard-pressed jurisdictions.

ALHFA supports the requirements for a 5-year, annually updated housing strategy and the particular elements enumerated. Likewise, the strategy's approval, unless inconsistent or illegal, within a fixed period of time, perhaps 60 days as opposed to 90 days, is fine.

ALHFA also supports the establishment of performance standards and a system to evaluate HOP activities as long as they are reasonable.

There are a number of other elements we would like to see added or changed.

The proposal makes reference to refinements being formulated for the low income tax credit, but it is silent on other needed changes in the Tax Code. In ALHFA's view, the housing investment strategy proposal should clearly state that it is part of a comprehensive program to produce rental housing which also needs appropriate tax incentives such as tax-exempt bonds. It should call for:

Defining tax-exempt bonds used for targeted rental housing as public purpose or governmental bonds which would take them out of the volume cap, the alternative minimum tax, and the arbitrage rebate requirements.

Improving the low income housing tax credit to increase its value by removing the bias against its use with tax-exempt bonds and/or by restoring some or all of the "passive loss" investment incentives.

The proposal calls for allocation of 80 percent of the HUD investment on the basis of 50 percent to States and 50 percent to local governments.

As we have previously told this subcommittee and as set forth in the August 1988 statement of precepts attached to our statement, we strongly believe that the bulk of the funds should be allocated to local governments. While a few States have developed exemplary programs to address low and moderate income housing needs, this should not be taken as a measure of overall State capacity or political will.

Perhaps a more appropriate State role is akin to that which they have undertaken in the Community Development Block Grant Program of allocating funds to smaller nonentitled jurisdictions. We would apply this same concept to S. 2711, the Housing Grant Action Act, introduced by Senators Dodd and D'Amato.

Of the elements suggested for the allocation formula, the last factor listed, an affordability index, is absolutely the most important and should be given the most weight. This factor tends to equalize differing housing markets. A household's ability to afford housing in a rust belt city is not the same as it is in a fast growing suburban county.

We believe, too, that a jurisdiction's capability to undertake a housing strategy, as evidenced by its track record in implementing lower income housing programs, should be a condition for receiving a direct subscription share. We wonder whether fiscal distress and poverty should be formula elements. Perhaps instead they should be taken into consideration in waiving the matching requirement.

ALHFA is very pleased to see a credit enhancement component in the proposal. The difficulty in obtaining credit enhancement for multifamily projects is a serious problem for local housing finance agencies. We support authorizing the HOME Corp. to guarantee securities backed by mortgage pools formed by localities, states, or consortia.

This is an extremely expensive thing to do. It adds a lot of dollars to rents and makes projects unaffordable. FHA credit enhancement, letters of credit, Ginnie Mae, et cetera, all add to the cost. We would appreciate it if you would seriously consider making that a major element in the bill and at a very low cost.

I have run over my time, Mr. Chairman. This concludes my testimony, and again I want to thank you for the opportunity to appear here, and I look forward to continuing to help the subcommittee shape the legislation.

[The complete prepared statement of Mr. Webdale follows:]

Many farm workers occupy primitive and unsanitary housing. To house such workers decently would require almost one million units.

And for all groups in rural America, problems of homelessness appear to be growing; the rural homeless are less visible, if not less destitute, than the homeless in cities. Many rural families are probably on the verge of homelessness that could occur as a result of a job layoff or illness of the main breadwinner.

Racial discrimination and segregation in housing also appear to be widespread in rural areas despite federal fair housing laws. Such discrimination is found not only in privately-financed housing but in housing financed by the Farmers Home Administration, HUD, and other federal agencies as well.

POLICY RECOMMENDATIONS

To address the serious housing problems that exist in rural America, a national housing policy must promote rural economic development; improve the credit system in rural areas; retain and expand established federal housing programs for low income people; ensure a fair share of federal and state housing dollars for rural areas; and attack racial and ethnic discrimination and segregation in housing.

Rural Economic Development

In any community, decent living standards and affordable housing are founded on stable and growing local economies. Many rural places suffer from undue dependence on single industries such as mining, oil production or farming. Rural development programs must be put in place to help such communities diversify; to enable residents to take advantage of the results of development; there must be job counseling and training, and improved education systems for children and young adults. Many of the building blocks for this have already been authorized by the Congress. The lead agency at the federal level in rural development is the Farmers Home Administration (FmHA) in the Department of Agriculture.

Credit System

Financial services are thinner and less diversified in rural areas than in urban centers. Many rural counties are served only by small commercial banks with limited capacity to tap into the secondary markets which are increasingly important in residential mortgage finance. There is some evidence that rural home borrowers are not able to obtain loans on terms as favorable as their urban counterparts. Lending institutions should be encouraged, consistent with principles of safety and soundness, to expand their mortgage lending activities in rural communities and to participate more fully in the national secondary markets of the Federal Housing Administration (FHA) and the Veterans Administration.

Low-Income Housing Programs

Many established federal housing programs serving low income persons in rural areas have proven themselves over the years. These include the homeownership and rental housing programs of FmHA (Sections 502, 515, and 521) as well as the public housing and rental assistance programs (Section 8) of the Department of Housing and Urban Development. Farm labor housing loan and grant programs and Indian housing programs now serve only a small fraction of the groups they are designed to assist; these programs should be expanded and made easier for local agencies, private sponsors and developers to utilize. With respect to the long-neglected problem of farm labor housing, a task force should be established to study and report on how to provide housing for such workers and their families in suitable locations and at acceptable costs. Proposals to terminate FmHA housing interest reduction subsidy programs and rely entirely on vouchers usable only in existing housing are particularly inappropriate in rural areas with scattered housing and a disproportionate share of substandard units.

Federal and State Funding

Rural areas have a disproportionate share of the nation's poor families and substandard housing. In recognition of these problems, rural areas should be allocated a fair share of subsidy funds for low-income housing.

Racial and Ethnic Discrimination

Discriminatory practices in housing are found in all sections of the country, in rural places no less than in metropolitan centers. Such practices are violations both of federal laws and American concepts of fairness. To address this, the Farmers Home Administration should expand its staff to include black personnel in operating positions, and rural communities should be included in HUD's new Fair Housing Initiative Program which enables private fair-housing groups to conduct testing activities designed to obtain enforcement of civil rights laws. And the laws themselves should be expanded to prohibit discrimination against families with children.

FUNDING RURAL HOUSING PROGRAMS

Providing decent housing for low-income people in rural areas will require substantial expenditures. Given current federal budget constraints, the programs should be expanded gradually. The nation's goal should be to meet the needs over a 10-year period.

Private initiatives and funds should be drawn into these housing efforts to the maximum practicable extent. The "new wave" of nonprofit development corporations should be encouraged to bring their energies and techniques to rural as well as urban communities. Benevolent loan funds and similar devices by which private individuals make housing loans available at below-market interest rates can be adapted to rural housing projects.

State matching requirements for a proportion of federal assistance should be considered. At the same time, the federal government should permit state and local governments and nonprofit groups to use federal assistance in more flexible ways, and should offer incentives to local agencies and groups to tailor programs to local circumstances.

The National Housing Forum recommended the establishment of low-income housing trust funds with money raised from a variety of sources. Sources of money for such trust funds could include transfers of a portion of capital gains from the strong segments of the real estate industry to the low-income end of the housing supply system. A reasonable portion of benefits from appreciation of property acquired with federal subsidies should be recaptured, placed in trust funds, and made available for other low-income housing undertakings.

ECONOMIC AND DEMOGRAPHIC TRENDS

Nonmetropolitan areas have been losing people to metropolitan areas during the 1980s. While some nonmetro communities continue to grow, the national trend has been outmigration. In 1985-86, nonmetro areas lost 632,000 persons to the metropolitan areas. These population movements marked a resumption of long-term trends; during the 1970s, nonmetro areas actually gained population at the expense of the metropolitan parts of the nation.

Unemployment is relatively high in rural countries: in 1986, more than 1,000 rural countries had unemployment rates of nine percent or more, when the national rate for civilian workers was seven percent. Declines or slow growth in primary industries such as mining, farming and energy, as well as in manufacturing, took their toll on rural economies of the Gulf Coast, Appalachia, other parts of the South and some areas in the Northwest.

Poverty is higher in nonmetro areas: 18 percent versus 12 percent in metropolitan areas in 1986. Almost 10 million persons in nonmetropolitan areas were below the poverty level. Many of these people were in families with one or more members who worked but did not earn enough to afford a decent standard of living.

Unless otherwise specified, these data are for nonmetropolitan areas. Nonmetro areas, as defined by the Census Bureau, are counties without a central city of 50,000 or more, but contain some places with populations between 2,500 and 50,000. Rural areas are those with less than 2,500 residents and are not part of an incorporated place and adjacent settled areas which aggregate to 50,000 or more inhabitants. Using nonmetro data may tend to overstate the rural housing problem in absolute terms if not in intensity. On the other hand, some areas included in metropolitan areas are essentially rural in character.

WORKING GROUPS

AFFORDABLE RENTAL HOUSING

Facilitators

Diane Voneida, Director Community Development Department
Rockford, IL
Carl Riedy, Jr., Executive Vice-President
Council State Housing Agencies, Washington, D.C.

AFFORDABLE HOMEOWNERSHIP

Facilitators

Nick Retsinas, Executive Director, R.I. Housing & Mortgage Finance Corp.
Providence, R.I.
Paula Phillips, Director, Housing & Community Services Department
Austin, TX

HOUSING NEEDS OF VULNERABLE POPULATIONS

Facilitators

Jack Kerry, Developer and Partner, Winn Development
Washington, D.C.
Cressworth C. Lander, Director, Community Services Dept.
Tucson, AZ

PUBLIC HOUSING

Facilitators

Ron Gatton, President, Redevelopment Services Corporation
Chicago, IL
Susan Riley, President, Capitol Strategies,
Washington, D.C.

RURAL HOUSING

Facilitators

Morton J. Schussheim, Senior Specialist in Housing
Library of Congress, Washington, D.C.
Lodis Rhodes, Associate Dean, LBJ School of Public Affairs
Austin, TX

PRESERVATION OF LOW-INCOME HOUSING

Facilitators

Bess Donaldson, Commissioner, Department of Housing
Chicago, IL
Darius Grayson, Deputy Commissioner, Department of Housing
Chicago, IL
Joel Wirth, Director of Planning, Department of Housing
Chicago, IL



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STATEMENT

BY

WALTER D. WEBDALE

PRESIDENT

ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES

BEFORE THE

SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

ON THE

STAFF CONCEPT PAPERS

NATIONAL AFFORDABLE HOUSING ACT

September 21, 1988

Mr. Chairman and Members of the Subcommittee:

I am Walter D. Webdale, Director of the Department of Housing and Community Development for Fairfax County, VA and President of the Association of Local Housing Finance Agencies (ALHFA). On behalf of ALHFA, I appreciate the opportunity to appear before you today to comment on the staff concept papers for the National Affordable Housing Act.

By way of background, ALHFA is a nonprofit, national association of professionals in the field of affordable housing finance. Its 133 members are city and county government agencies which finance homeownership and rental housing opportunities for low- and moderate-income persons. ALHFA's purpose is to serve its members as an advocate before Congress and the Executive Branch on affordable housing policy issues, and, through educational activities, to enhance the ability of local housing finance agencies to implement responsible and professionally-administered affordable housing programs for low- and moderate-income persons.

At the onset, Mr. Chairman, I want to commend you and Senator D'Amato for your tremendous leadership in helping to restore the issue of affordable housing for low- and moderate-income persons to its rightful place on the national agenda. Inviting all national housing organizations last year to submit recommendations on changes needed in housing policies and programs, creating the national Housing Task Force, and holding these hearings on staff concept papers outlining a new national affordable housing act are all a testament to that leadership.

I also want to take this opportunity to commend your staff for their efforts to seek out our comments as the staff concept papers were being prepared. We participated in numerous meetings and provided extensive comments. We are confident that this fine working relationship will continue as the Subcommittee drafts the national affordable housing act -- an idea whose time has come.

As a general comment Mr. Chairman, let me reiterate our strong support for the four organizing principles underpinning the proposed act: Building on what works by utilizing the considerable capacity to provide affordable housing which has developed at the local government level by expanding the system of responsive institutions, such as FHA, GNMA and FNMA; providing federal support which is straightforward, understandable, and flexible; and responding to the housing needs of all Americans. We believe that the staff concept papers do an excellent job in reflecting these principles. As to our specific comments:

Homeownership Affordability

As you undoubtedly know, next to having an adequate monthly cash flow to support a mortgage, the greatest difficulty faced by lower-income, prospective first-time homebuyers is scraping together enough funds to make a downpayment. The staff concept papers properly address both problems, first by proposing a four-year extension of the authority to issue tax-exempt Mortgage Revenue Bonds and Mortgage Credit Certificates, and second by making it easier to finance a downpayment. The Mortgage Revenue Bond program has served for many years as a key tool utilized by local housing finance agencies to

provide below-market-rate mortgages to low- and moderate-income, first-time homebuyers -- those whom the conventional mortgage market has left behind. Extension of the December 31, 1988 "sunset" on authority to issue MRBs is critical.

We support permitting individuals to use an IRA or 401(K) retirement plan as a secured loan or equity investment in their principal residence as a legitimate means of assisting first-time homebuyers acquire the funds for a downpayment.

ALHFA is particularly pleased to note that the proposal calls for replacing the current national ceiling on FHA-insured mortgages with a ceiling which includes state or substate ceilings. The current national ceiling, as you Mr. Chairman and Senator D'Amato well know, has rendered the FHA program largely unworkable in many high-housing-cost areas, such as the New York metropolitan area, Los Angeles, and San Francisco.

We likewise support the easing of downpayment requirements under the FHA program. We believe the additional opportunities for access to affordable housing by lower-income individuals far outweighs the possibility that they may be a greater credit risk.

ALHFA also supports extension of FHA insurance to certain adjustable-rate mortgages as proposed, and removal of the statutory limit on the aggregate number of loans to be insured in a single year.

In addition, as we pointed out in our submission to the Subcommittee, to overcome the deterioration of FHA over the past 8 years, Congress should renew FHA's mandate to participate fully in housing insurance and guarantee program. Also, Congress should not privatize FHA nor restrict its operation with volume limits, additional fees, or income targeting.

Senator CRANSTON. Thank you.

STATEMENT OF MICHAEL HIGHTOWER, COMMISSIONER, FULTON COUNTY, GA. REPRESENTING THE NATIONAL ASSOCIATION OF COUNTIES

Mr. HIGHTOWER. Good morning, Mr. Chairman and members of the subcommittee. My name is Michael Hightower, county commissioner from Fulton County, GA. I am testifying on behalf of the National Association of Counties, NACo, for which I serve as chair of the Community and Economic Development Steering Committee.

At the outset, Mr. Chairman, I wish to commend you and Senator D'Amato for your bipartisan leadership in pulling together a broad coalition to define new national housing policy. As you develop affordable housing legislation, the Nation's 35,000 county officials look forward to sharing the expertise we have gained through our efforts in addressing the housing crisis at the local level.

The National Association of Counties was pleased that the staff concept papers incorporate most of the recommendations contained in the housing proposal NACo submitted to this subcommittee last fall. We believe that the four organizing principles establish the proper framework for affordable housing legislation. We particularly endorse the principle that Federal housing legislation should build upon what works at the local level and should give local governments maximum flexibility to develop programs in response to a broad range of locally defined affordable housing needs. I will comment on sections of the staff outline that are of particular concern to county governments.

AFFORDABLE HOMEOWNERSHIP

The National Association of Counties supports efforts to assist first time home buyers. County governments now use an array of strategies to make homeownership more attainable for moderate income persons.

Mortgage revenue bonds and mortgage credit certificates are key components to assist first time home buyers. Unfortunately, some members of the tax writing committees do not recognize the effectiveness of these programs.

We urge this subcommittee to extend the MRB and MCC programs. Furthermore, we urge you to join NACo in opposing provisions adopted by the House which would, one, require that arbitrage profits be rebated to the Federal Government; two, impose a 3-year loan origination period; three, impose household size adjustments, and, four, require recapture of a portion of the subsidy if a home is resold within 10 years. These provisions would severely cripple the effectiveness of these programs.

The staff concept papers correctly identify securing a downpayment as the major obstacle for many first time home buyers. While we do not oppose allowing access to individual retirement accounts or 401(k) accounts for downpayments, we suggest that it may be more straightforward to establish tax-exempt savings accounts earmarked for housing downpayments. NACo also would encourage FHA to engage in prepurchase counseling to promote responsible homeownership.

PRESERVATION OF AFFORDABLE HOUSING

The National Association of Counties believes that preserving the federally assisted inventory of low income housing is essential. We support the creation of a new Office of Affordable Housing Preservation within HUD. This office should develop incentives carefully crafted for individual projects.

As outlined in the attached NACo resolution, these incentives should include rental assistance for section 221(d)(3) and section 236 properties to prevent default and prepayment, second mortgages through Fannie Mae or other governmental agencies and rehabilitation loans. In addition, developers should be allowed greater access to their equity in order to undertake rehabilitation.

We agree with the staff papers that tenants, nonprofit organizations and local governments should be parties in developing preservation strategies. However, the extent of a local government's participation should be based on the county's assessment of its capacity to commit local and other resources, including HOP funds, to a preservation plan.

INVESTMENT IN STATE AND LOCAL HOUSING STRATEGIES

The National Association of Counties is highly supportive of the scheme outlined for the Federal Government to invest in affordable housing. It acknowledges that the Federal Government should play a major role in underwriting the cost of housing while recognizing the preeminent role of counties and other local governments and agencies in designing and producing affordable housing for low and moderate income persons.

We believe that critical provisions are those which ensure the long term affordability of housing and provide county governments with maximum flexibility in the use of Federal housing assistance.

Although the Housing Opportunity Partnerships Program is conceptually in tune with the housing supply program that NACo proposed last fall, we are concerned about some restrictions imposed on use of the HOP funds. We ask that the subcommittee reconsider the prohibition against the use of HOP for light to moderate renovation.

Not only can this form of assistance be cost effective, but it also can further the goal of housing preservation by preventing units from gradually falling into a state of disrepair. Rental rehabilitation grants now serve this important purpose. County officials would be in a position to provide similar assistance for privately owned affordable dwellings through HOP.

We also ask the subcommittee to rethink the cap of 25 percent of HOP funds for publicly owned housing. This restriction and the one prohibiting use of HOP for certain renovations are contrary to the emphasis on allowing county governments maximum flexibility in designing affordable housing programs.

Following an examination of successful housing developments and others experiencing difficulty, I have concluded that mixed income housing projects should be encouraged and that high concentrations of low income persons should be avoided. I would urge the subcommittee to consult with NACo if you decide to recom-

Preservation of Affordable Housing

ALHFA supports creation of an Office of Affordable Housing Preservation, as proposed in the staff concept papers, responsible for administering laws and providing leadership on issues that affect the continued low-income affordability of rental housing. Such an office will serve as a visible focal point for needed federal efforts to provide leadership and technical assistance in response to a continuing national problem.

We also support the requirement that each state and locality participating in the HOP program include in its housing strategy a description of the steps it will take to continue the low-income affordability of federally-assisted housing within its jurisdiction. However, this requirement should be qualified with language, "to the extent resources are available," so as not to create the expectation that the localities should necessarily use their HOP assistance (thus destroying the flexibility of this assistance) or that they will be forced to commit other nonfederal funds. This is an area where a predominant federal, and supportive state and local, role is critical.

Investment in State and Local Housing Strategies

This portion of the staff concept papers is one on which ALHFA has provided extensive comment both individually and through the August 1988 "Housing and Community Development Policy Precepts" (copy attached) proposed by ALHFA, the U.S. Conference of Mayors, National League of Cities, National Association of Counties, National Association of Housing and Redevelopment Officials, and the National Community Development Association.

We are aware that the Subcommittee has received testimony critical of the HOP "investment certificate" approach as opposed to the housing block grant proposed by the National Housing Task Force. By way of comment on this, ALHFA proposed a housing block grant in its October 5, 1987 submission to the Subcommittee. Thus, we are on record in support of a block grant. However, if it is the Subcommittee's judgment that the investment certificate approach is politically more salable we are prepared to support it. The point is Mr. Chairman that, due to the tremendous decline in direct expenditures for low-income rental housing, coupled with the new restrictions on tax-exempt rental housing bonds and associated real estate incentives, local governments are desperate for any assistance from the federal government -- be it a block grant or long-term loans.

Having said that, the following are elements of the staff proposal which we find well-suited:

- o Characterizing the program as an investment in housing strategies, with the notion that there is long-term public commitment to housing the poor;

- o We support assistance which is flexible in use; however, the provision (on page 22) which limits to 25 percent the amount of funding which can be used for publicly-owned housing should be deleted as inconsistent with the notion of maximum flexibility and local discretion. The decision to fund publicly-owned projects should be left to the locality;

- o We support excluding the investment certificates as debt of the participating jurisdiction;

- o Allocating the assistance by formula directly to local governments meeting a formula-amount threshold;
- o Waiving repayment of principal if the housing remains affordable for its useful life or, if converted to another use, requiring that it be replaced on a one-for-one basis without federal assistance;
- o Requiring development of a multiyear housing strategy describing housing needs, how those needs are to be addressed, state and local efforts to reduce housing costs, leveraging, and minority housing opportunities;
- o Locating responsibility with the jurisdiction's chief executive for deciding whether to participate in the program, developing strategy design, and identifying implementing agency(ies); however, provision should be made for public agencies [independent (i.e. not responsible to the chief executive) housing authorities/housing finance agencies] to participate and receive 100 percent of the subscription share should the chief executive decline;
- o Recognizing the need for and providing a program of credit enhancement; As you realize credit enhancement is the very foundation of providing affordable housing.
- o Building on the considerable housing finance expertise which resides in local and some state housing finance agencies; and
- o Establishing a new corporation (HOME) within HUD which would be relatively free from the traditional way of doing business. However, provision should be made to insure its independence and autonomy as a separate corporation.

Additional Comments:

The definition of what constitutes affordable housing Rent limitations, unit set asides for low income tenants, income restrictions for occupants of market rate units, and nondiscrimination against Section 8 certificate or voucher holders are all concepts which ALHFA supports. However, we must point out that there is a direct relationship between the extent of income targeting, and thus rents generated, and project financial feasibility. We also strongly believe that explicit provision should be made permitting an adjustment to the targeting requirements in areas of high housing costs relative to income.

As to the establishment of fair market rents, the special needs section of the proposal permits localities to set fair market rents which can be used in lieu of HUD-established fair market rents. We support this and suggest it also be permitted in the HOP program.

ALHFA also supports the minimum 10-percent set-aside for nonprofits as well as the reallocation provisions if the set-aside cannot be utilized.

The matching requirements are also generally acceptable and present a number of options which will not make them burdensome on financially hard-pressed jurisdictions.

ALHFA supports the requirements for a five-year, annually-updated housing strategy and the particular elements enumerated. Likewise, the strategy's approval, unless inconsistent or illegal, within a fixed period of time (perhaps 60 days as opposed to 90 days) is fine.

ALHFA also supports the establishment of performance standards and a system to evaluate HOP activities as long as they are reasonable.

There are a number of other elements we would like to see added or changed.

- o The proposal makes reference to refinements being formulated for the low-income tax credit, but it is silent on other needed changes in the tax code. In ALHFA's view, the housing investment strategy proposal should clearly state that it is part of a comprehensive program to produce rental housing which also needs appropriate tax incentives such as tax-exempt bonds. It should call for:

- defining tax-exempt bonds used for targeted rental housing as public purpose or governmental bonds which would take them out of the volume cap, the alternative minimum tax, and the arbitrage rebate requirements; and

- improving the low-income housing tax credit to increase its value by removing the bias against its use with tax-exempt bonds and/or by restoring some or all of the "passive loss" investment incentives.

- o The proposal calls for allocation of 80 percent of the HUD investment on the basis of 50 percent to states and 50 percent to local governments. As we have previously told the Subcommittee, and as set forth in the August 1988 statement of precepts, we strongly believe that the bulk of the funds should be allocated to local governments. While a few states have developed exemplary programs to address low- and moderate-income housing needs, this should not be taken as a measure of overall state capacity or political will.

Perhaps a more appropriate state role is akin to that which they had

undertaken in the Community Development Block Grant Program of allocating funds to smaller non-entitled jurisdictions. We would apply this same concept to S. 2711, the Housing Grant Action Act, introduced by Senators Dodd and D'Amato.

Of the elements suggested for the allocation formula, the last factor listed -- an affordability index -- is absolutely the most important and should be given the most weight. This factor tends to equalize differing housing markets. A household's ability to afford housing in a rust belt city is not the same as it is in a fast-growing suburban county. We believe, too, that a jurisdiction's capability to undertake a housing strategy, as evidenced by its track record in implementing lower-income housing programs, should be a condition for receiving a direct subscription share. We wonder whether fiscal distress and poverty should be formula elements? Perhaps instead they should be taken into consideration in waiving the matching requirement.

ALHFA is very pleased to see a credit enhancement component in the proposal. The difficulty in obtaining credit enhancement for multifamily projects is a serious problem for local housing finance agencies. We support authorizing the HOME Corporation to guarantee securities backed by mortgage pools formed by localities, states, or consortia.

ALHFA also supports the risk-sharing provisions set forth in the proposal. Permitting, but not mandating, risk sharing for localities is an appropriate recognition of their varying fiscal capacity. However, the amount of a local government's risk should be limited and carefully crafted so that it is not interpreted as a local debt obligation.

ALHFA supports authorization for the HOME Corporation to provide

technical assistance for program implementation. As with any new program, there will be a need for such assistance and we are pleased to see that it has been incorporated.

Simplification of the FHA multifamily mortgage insurance program is also something ALHFA supports and recommended in our October 5, 1987 submission to the Subcommittee.

Low-Income Rental Assistance

ALHFA is very pleased to see that the proposal includes, as we recommended, a rental subsidy program which clearly recognizes federal responsibility for its funding. We are pleased to see that it will be more flexible than the current Section 8 certificates and vouchers, that it is tied into the HOP strategy, that it can be tenant-based or project-based, that localities have the opportunity to establish fair market rents, and that it will be distributed on a formula basis.

With respect to the allocation formula, the proposal requires the Secretary to recommend legislation to implement the allocation formula. Under the HOP program, the proposal included seven factors for the Secretary to use in devising a formula. It would seem that the method of implementing the formula for both programs should be consistent, i.e. by regulation or by statute. In addition, we do not believe the interim formula should be based on past allocations. Instead, it should more properly be based on need.

Supportive Housing

ALHFA generally supports the proposal's supportive housing provisions. We shall leave specific comments to those individuals and organizations with an expertise in this area.

In summary, ALHFA:

- o supports the staff concept paper's provisions on homeownership
- o believes that the staff concept papers should spell out the need for tax code incentives to make the rental housing investment strategy work
- o supports the establishment of a separate HOME Corporation
- o supports a predominant local government role in the investment strategy program
- o supports generally the rental assistance, preservation and special needs provisions.

Mr. Chairman, this concludes my testimony. I again want to thank you for the opportunity to appear here today. ALHFA looks forward to continuing to help the Subcommittee shape this important legislation.

UNITED STATES CONFERENCE OF MAYORS
NATIONAL LEAGUE OF CITIES
NATIONAL ASSOCIATION OF COUNTIES
NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS
NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION
ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES

-2-

HOUSING AND COMMUNITY DEVELOPMENT POLICY PRECEPTS

1. Formalize and acknowledge the preeminent role of local governments and agencies in designing and producing affordable housing for low and moderate income households. Any new housing initiative must build on the significant capacity and experience developed by local governments and agencies—which have by necessity become major players in producing and providing affordable housing.

2. While we recognize a few States have begun to play a role in providing affordable housing, this should not be mistaken as a measure of overall State capacity or political will.

The appropriate State role is one of partnership. That partnership must consist of both the State, local governments and agencies. The State Government should provide their own resources—as a supplement to Federal assistance—for the production of affordable housing as well as assisting in capacity building for smaller communities.

3. Localities should play a principal role in encouraging the active involvement of States, private sector and non-profits in the implementation of local housing strategies and programs.

4. Programmatically, the Legislative Initiative should:

- A. establish a clear set of annual housing goals;
- B. require those jurisdictions receiving assistance to adopt a housing strategy describing its affordable housing needs and the method in which those needs are to be addressed;
- C. provide maximum flexibility in the use of assistance to local communities so that programs can be tailored to local needs;

- D. provide assistance that is established on a "needs-based" entitlement formula to cities and counties;
 - E. provide assistance that will be targeted to a range of income groups from very low to moderate income;
 - F. provide funding separately for production (e.g. construction, rehabilitation and acquisition) and rental subsidy (project-based and tenant-based); and,
 - G. provide separate funding for the preservation of existing assisted and public housing.
5. To complement the new production program and encourage private sector participation in the provision of mixed income housing, the Tax Code should be amended by:

- A. defining as "governmental" tax-exempt bonds issued to finance rental housing meeting current law targeting requirements (20 percent of units at 50 percent of median or 40 percent of the units at 60 percent of median with revised program limits for areas with high building costs and low median income);
- B. removing the penalty which reduces the value of the low income housing tax credit from 9 percent to 4 percent when bond financing or federal assistance is used;
- C. relaxing the passive investment loss rules for projects meeting current law targeting requirements; and,
- D. providing a more favorable depreciation schedule for projects meeting current law targeting requirements.

mend a percentage of HOP assistance that must be targeted exclusively to low income persons.

When the NACo Community and Economic Development Steering Committee reviewed the staff concept papers, the provision which generated the most concern was the 80 percent portion of HOP funds which would be allocated by formula. There was strong sentiment that under this formula too large a percentage of funds would go to State governments and an insufficient amount would be allocated directly to counties and other local governments.

County officials recommend that the bulk of HOP funds that are to be allocated by formula be distributed to urban counties and metropolitan cities in a manner analogous to the distribution of Community Development Block Grant funds. Although some states have developed exemplary housing programs, counties and cities, as the level of government closest to the people, have fervently moved into the forefront in addressing the housing needs of low and moderate income people.

NACo agrees that local governments which do not qualify for what will be defined as a minimum entitlement should apply for HOP funds through the State-administered program. We would be pleased to work with the subcommittee in determining what that threshold should be.

The concept papers suggest that localities could form consortiums for purposes of receiving HOP funds directly. We view county governments as the natural entity to coordinate housing programs among small municipalities.

As you know, counties already perform this function in administering Community Development Block Grants. Therefore, it would be more cost effective to expand these structures rather than create new entities to administer affordable housing programs.

In addition, this arrangement would enable counties to coordinate housing strategies required for HOP with the housing assistance plans formulated in conjunction with community development and emergency shelter grants.

Of the factors listed for the allocation formula, we believe that the affordability index that compares housing costs and income should be weighted most heavily. This factor would address the difficulty low and moderate income persons experience in finding affordable housing in high cost areas. We recommend that the allocation formula also take into account some measurement of local efforts in housing.

Poverty and fiscal distress factors are more appropriate in waiving matching requirements than in establishing allocations. We feel that county officials should have flexibility in deciding ways to satisfy any matching requirements, including donating land and other in-kind contributions.

[The complete prepared statement of Mr. Hightower follows:]

**NATIONAL
ASSOCIATION
of
COUNTIES**

440 First St. NW Washington, DC 20001
202/595-6226

STATEMENT OF
MICHAEL HIGHTOWER
COUNTY COMMISSIONER, FULTON COUNTY, GEORGIA

ON

THE NATIONAL AFFORDABLE HOUSING ACT
STAFF CONCEPT PAPERS

BEFORE THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

ON BEHALF OF
THE NATIONAL ASSOCIATION OF COUNTIES
WASHINGTON, DC

SEPTEMBER 21, 1988

GOOD MORNING MR. CHAIRMAN AND MEMBERS OF THE SENATE HOUSING SUBCOMMITTEE. MY NAME IS MICHAEL HIGHTOWER, COUNTY COMMISSIONER FROM FULTON COUNTY, GEORGIA. I AM TESTIFYING ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES (NACo)* FOR WHICH I SERVE AS CHAIR OF THE COMMUNITY AND ECONOMIC DEVELOPMENT STEERING COMMITTEE.

AT THE OUTSET, MR. CHAIRMAN, I WISH TO COMMEND YOU AND SENATOR D'AMATO FOR YOUR BIPARTISAN LEADERSHIP IN PULLING TOGETHER A BROAD COALITION TO DEFINE NEW NATIONAL HOUSING POLICY. AS YOU DEVELOP AFFORDABLE HOUSING LEGISLATION, THE NATION'S 35,000 COUNTY OFFICIALS LOOK FORWARD TO SHARING THE EXPERTISE WE HAVE GAINED THROUGH OUR EFFORTS IN ADDRESSING THE HOUSING CRISIS AT THE LOCAL LEVEL.

THE NATIONAL ASSOCIATION OF COUNTIES WAS PLEASED THAT THE STAFF CONCEPT PAPERS INCORPORATE MOST OF THE RECOMMENDATIONS CONTAINED IN THE HOUSING PROPOSAL NACo SUBMITTED TO THIS SUBCOMMITTEE LAST

*THE NATIONAL ASSOCIATION OF COUNTIES IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN THE UNITED STATES. THROUGH ITS MEMBERSHIP, URBAN, SUBURBAN AND RURAL COUNTIES JOIN TOGETHER TO BUILD EFFECTIVE, RESPONSIVE COUNTY GOVERNMENT. THE GOALS OF THE ORGANIZATION ARE TO: IMPROVE COUNTY GOVERNMENT; SERVE AS THE NATIONAL SPOKESMAN FOR COUNTY GOVERNMENT; ACT AS A LIAISON BETWEEN THE NATION'S COUNTIES AND OTHER LEVELS OF GOVERNMENT; ACHIEVE PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.

FALL. WE BELIEVE THAT THE FOUR ORGANIZING PRINCIPLES ESTABLISH THE PROPER FRAMEWORK FOR AFFORDABLE HOUSING LEGISLATION. WE PARTICULARLY ENDORSE THE PRINCIPLE THAT FEDERAL HOUSING LEGISLATION SHOULD BUILD UPON WHAT WORKS AT THE LOCAL LEVEL AND SHOULD GIVE LOCAL GOVERNMENTS MAXIMUM FLEXIBILITY TO DEVELOP PROGRAMS IN RESPONSE TO A BROAD RANGE OF LOCALLY DEFINED AFFORDABLE HOUSING NEEDS. I WILL COMMENT ON SECTIONS OF THE STAFF OUTLINE THAT ARE OF PARTICULAR CONCERN TO COUNTY GOVERNMENTS.

AFFORDABLE HOMEOWNERSHIP

THE NATIONAL ASSOCIATION OF COUNTIES SUPPORTS EFFORTS TO ASSIST FIRST-TIME HOME BUYERS. COUNTY GOVERNMENTS NOW USE AN ARRAY OF STRATEGIES TO MAKE HOMEOWNERSHIP MORE ATTAINABLE FOR MODERATE INCOME PERSONS.

MORTGAGE REVENUE BONDS AND MORTGAGE CREDIT CERTIFICATES ARE KEY COMPONENTS TO ASSIST FIRST-TIME HOME BUYERS. UNFORTUNATELY, SOME MEMBERS OF THE TAX WRITING COMMITTEES DO NOT RECOGNIZE THE EFFECTIVENESS OF THESE PROGRAMS. WE URGE THIS SUBCOMMITTEE TO EXTEND MRB AND MCC PROGRAMS. FURTHERMORE, WE URGE YOU TO JOIN NACo IN OPPOSING PROVISIONS ADOPTED BY THE HOUSE WHICH WOULD 1) REQUIRE THAT ARBITRAGE PROFITS BE REBATED TO THE FEDERAL

GOVERNMENT, 2) IMPOSE A THREE-YEAR LOAN ORIGINATION PERIOD, 3) IMPOSE HOUSEHOLD SIZE ADJUSTMENTS, AND, 4) REQUIRE RECAPTURE OF A PORTION OF THE SUBSIDY IF A HOME IS RESOLD WITHIN TEN YEARS. THESE PROVISIONS WOULD SEVERELY CRIPPLE THE EFFECTIVENESS OF THESE PROGRAMS.

THE STAFF CONCEPT PAPERS CORRECTLY IDENTIFY SECURING A DOWNPAYMENT AS THE MAJOR OBSTACLE FOR MANY FIRST-TIME HOME BUYERS. WHILE DO WE DO NOT OPPOSE ALLOWING ACCESS TO INDIVIDUAL RETIREMENT ACCOUNTS OR 401(K) ACCOUNTS FOR DOWNPAYMENTS, WE SUGGEST THAT A IT MAY BE MORE STRAIGHT FORWARD TO ESTABLISH TAX-EXEMPT SAVINGS ACCOUNTS EARMARKED FOR HOUSING DOWNPAYMENTS. NACo ALSO WOULD ENCOURAGE PHA TO ENGAGE IN PREPURCHASE COUNSELING TO PROMOTE RESPONSIBLE HOMEOWNERSHIP.

PRESERVATION OF AFFORDABLE HOUSING

THE NATIONAL ASSOCIATION OF COUNTIES BELIEVES THAT PRESERVING THE FEDERALLY-ASSISTED INVENTORY OF LOW-INCOME HOUSING IS ESSENTIAL. WE SUPPORT THE CREATION OF A NEW OFFICE OF AFFORDABLE HOUSING PRESERVATION WITHIN HUD. THIS OFFICE SHOULD DEVELOP INCENTIVES CAREFULLY CRAFTED FOR INDIVIDUAL PROJECTS. AS OUTLINED IN THE ATTACHED NACo RESOLUTION, THESE INCENTIVES SHOULD INCLUDE RENTAL ASSISTANCE FOR SECTION 221(D)(3) AND SECTION 236 PROPERTIES TO PREVENT DEFAULT AND PREPAYMENT, SECOND MORTGAGES

THROUGH FANNIE MAE OR OTHER GOVERNMENTAL AGENCIES AND REHABILITATION LOANS. IN ADDITION, DEVELOPERS SHOULD BE ALLOWED GREATER ACCESS TO THEIR EQUITY IN ORDER TO UNDERTAKE REHABILITATION.

WE AGREE WITH THE STAFF PAPERS THAT TENANTS, NONPROFIT ORGANIZATIONS AND LOCAL GOVERNMENTS SHOULD BE PARTIES IN DEVELOPING PRESERVATION STRATEGIES. HOWEVER, THE EXTENT OF A LOCAL GOVERNMENT'S PARTICIPATION SHOULD BE BASED ON THE COUNTY'S ASSESSMENT OF ITS CAPACITY TO COMMIT LOCAL AND OTHER RESOURCES, INCLUDING HOP FUNDS, TO A PRESERVATION PLAN.

INVESTMENT IN STATE AND LOCAL HOUSING STRATEGIES

THE NATIONAL ASSOCIATION OF COUNTIES IS HIGHLY SUPPORTIVE OF THE SCHEME OUTLINED FOR THE FEDERAL GOVERNMENT TO INVEST IN AFFORDABLE HOUSING. IT ACKNOWLEDGES THAT THE FEDERAL GOVERNMENT SHOULD PLAY A MAJOR ROLE IN UNDERWRITING THE COST OF HOUSING WHILE RECOGNIZING THE PREEMINENT ROLE OF COUNTIES AND OTHER LOCAL GOVERNMENTS AND AGENCIES IN DESIGNING AND PRODUCING AFFORDABLE HOUSING FOR LOW AND MODERATE INCOME PERSONS. WE BELIEVE THAT CRITICAL PROVISIONS ARE THOSE WHICH ENSURE THE LONG-TERM AFFORDABILITY OF HOUSING AND PROVIDE COUNTY GOVERNMENTS WITH MAXIMUM FLEXIBILITY IN THE USE OF FEDERAL HOUSING ASSISTANCE.

ALTHOUGH THE HOUSING OPPORTUNITY PARTNERSHIPS PROGRAM IS CONCEPTUALLY IN TUNE WITH THE HOUSING SUPPLY PROGRAM THAT NACO PROPOSED LAST FALL, WE ARE CONCERNED ABOUT SOME RESTRICTIONS IMPOSED ON USE OF THE HOP FUNDS. WE ASK THAT THE SUBCOMMITTEE RECONSIDER THE PROHIBITION AGAINST THE USE OF HOP FOR LIGHT TO MODERATE RENOVATION. NOT ONLY CAN THIS FORM OF ASSISTANCE BE COST EFFECTIVE, BUT IT ALSO CAN FURTHER THE GOAL OF HOUSING PRESERVATION BY PREVENTING UNITS FROM GRADUALLY FALLING INTO A STATE OF DISREPAIR. RENTAL REHABILITATION GRANTS NOW SERVE THIS IMPORTANT PURPOSE. COUNTY OFFICIALS WOULD BE IN A POSITION TO PROVIDE SIMILAR ASSISTANCE FOR PRIVATELY OWNED AFFORDABLE DWELLINGS THROUGH HOP.

WE ALSO ASK THE SUBCOMMITTEE TO RETHINK THE CAP OF 25 PERCENT OF HOP FUNDS FOR PUBLICLY OWNED HOUSING. THIS RESTRICTION AND THE ONE PROHIBITING USE OF HOP FOR CERTAIN RENOVATIONS ARE CONTRARY TO THE EMPHASIS ON ALLOWING COUNTY GOVERNMENTS MAXIMUM FLEXIBILITY IN DESIGNING AFFORDABLE HOUSING PROGRAMS.

FOLLOWING AN EXAMINATION OF SUCCESSFUL HOUSING DEVELOPMENTS AND OTHERS EXPERIENCING DIFFICULTY, I HAVE CONCLUDED THAT MIXED INCOME HOUSING PROJECTS SHOULD BE ENCOURAGED AND THAT HIGH CONCENTRATIONS OF LOW-INCOME PERSONS SHOULD BE AVOIDED. I WOULD, URGE THE SUBCOMMITTEE TO CONSULT WITH NACO IF YOU DECIDE TO

RECOMMEND A PERCENTAGE OF HOP ASSISTANCE THAT MUST BE TARGETED EXCLUSIVELY TO LOW-INCOME PERSONS.

WHEN THE NACo COMMUNITY AND ECONOMIC DEVELOPMENT STEERING COMMITTEE REVIEWED THE STAFF CONCEPT PAPERS, THE PROVISION WHICH GENERATED THE MOST CONCERN WAS THE 80 PERCENT PORTION OF HOP FUNDS WHICH WOULD BE ALLOCATED BY FORMULA. THERE WAS STRONG SENTIMENT THAT UNDER THIS FORMULA TOO LARGE A PERCENTAGE OF FUNDS WOULD GO TO STATE GOVERNMENTS AND AN INSUFFICIENT AMOUNT WOULD BE ALLOCATED DIRECTLY TO COUNTIES AND OTHER LOCAL GOVERNMENTS.

COUNTY OFFICIALS RECOMMEND THAT THE BULK OF HOP FUNDS THAT ARE TO BE ALLOCATED BY FORMULA BE DISTRIBUTED TO URBAN COUNTIES AND METROPOLITAN CITIES IN A MANNER ANALOGOUS TO THE DISTRIBUTION OF COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS. ALTHOUGH SOME STATES HAVE DEVELOPED EXEMPLARY HOUSING PROGRAMS, COUNTIES AND CITIES, AS THE LEVEL OF GOVERNMENT CLOSEST TO THE PEOPLE, HAVE FERVENTLY MOVED INTO THE FOREFRONT IN ADDRESSING THE HOUSING NEEDS OF LOW AND MODERATE INCOME PEOPLE.

NACo AGREES THAT LOCAL GOVERNMENTS WHICH DO NOT QUALIFY FOR WHAT WILL BE DEFINED AS A MINIMUM ENTITLEMENT SHOULD APPLY FOR HOP FUNDS THROUGH THE STATE ADMINISTERED PROGRAM. WE WOULD BE PLEASED TO WORK WITH THE SUBCOMMITTEE IN DETERMINING WHAT THAT THRESHOLD SHOULD BE.

THE CONCEPT PAPERS SUGGEST THAT LOCALITIES COULD FORM CONSORTIUMS FOR PURPOSES OF RECEIVING HOP FUNDS DIRECTLY. WE VIEW COUNTY GOVERNMENTS AS THE NATURAL ENTITY TO COORDINATE HOUSING PROGRAMS AMONG SMALL MUNICIPALITIES. AS YOU KNOW, COUNTIES ALREADY PERFORM THIS FUNCTION IN ADMINISTERING COMMUNITY DEVELOPMENT BLOCK GRANTS. THEREFORE, IT WOULD BE MORE COST EFFECTIVE TO EXPAND THESE STRUCTURES RATHER THAN CREATE NEW ENTITIES TO ADMINISTER AFFORDABLE HOUSING PROGRAMS. IN ADDITION, THIS ARRANGEMENT WOULD ENABLE COUNTIES TO COORDINATE HOUSING STRATEGIES REQUIRED FOR HOP WITH THE HOUSING ASSISTANCE PLANS FORMULATED IN CONJUNCTION WITH COMMUNITY DEVELOPMENT AND EMERGENCY SHELTER GRANTS.

OF THE FACTORS LISTED FOR THE ALLOCATION FORMULA, WE BELIEVE THAT THE AFFORDABILITY INDEX THAT COMPARES HOUSING COSTS AND INCOME SHOULD BE WEIGHTED MOST HEAVILY. THIS FACTOR WOULD ADDRESS THE DIFFICULTY LOW AND MODERATE INCOME PERSONS EXPERIENCE IN FINDING AFFORDABLE HOUSING IN HIGH COST AREAS. WE RECOMMEND THAT THE ALLOCATION FORMULA ALSO TAKE INTO ACCOUNT SOME MEASUREMENT OF LOCAL EFFORTS IN HOUSING.

POVERTY AND FISCAL DISTRESS FACTORS ARE MORE APPROPRIATE IN WAIVING MATCHING REQUIREMENTS THAN IN ESTABLISHING ALLOCATIONS. WE FEEL THAT COUNTY OFFICIALS SHOULD HAVE FLEXIBILITY IN DECIDING WAYS TO SATISFY ANY MATCHING REQUIREMENTS, INCLUDING DONATING LAND AND OTHER IN-KIND CONTRIBUTIONS.

CREDIT ENHANCEMENT

NACo IS QUITE PLEASED THAT THE OUTLINE INCLUDES CREDIT ENHANCEMENT WHICH WOULD ALLOW LOCAL ISSUERS TO SELL MORTGAGES DIRECTLY TO THE HOME CORPORATION IF THEY ARE EXPERIENCED, USE HIGH UNDERWRITING STANDARDS AND SHARE RISK. NACo PROPOSED THIS FINANCING TECHNIQUE IN ITS POLICY STATEMENT LAST FALL.

TAX PROVISIONS

THE NATION'S COUNTY OFFICIALS AGREE WITH YOUR STAFF THAT THE LOW-INCOME TAX CREDITS SHOULD BE REFINED. AS STATED IN THE ATTACHED RESOLUTION, NACo SUPPORTS EXPANSION OF THEIR USE FOR EXISTING LOW-INCOME PROJECTS, REMOVAL OF THE PENALTY WHICH LOWERS THE VALUE OF THE TAX CREDIT FROM NINE PERCENT TO FOUR PERCENT WHEN USED IN CONJUNCTION WITH TAX-EXEMPT FINANCING OR FEDERAL FUNDS, AND RAISING THE INCOME LEVEL FOR PURCHASERS OF TAX CREDITS.

I SHOULD POINT OUT THAT LOW-INCOME TAX CREDITS, ALONE, CANNOT SUBSTITUTE FOR THE TAX INCENTIVES FOR PRODUCING HOUSING THAT EITHER WERE CURTAILED OR ELIMINATED BY THE 1986 TAX REFORM ACT. IN RESTORING THE EFFECTIVENESS OF TAX-EXEMPT FINANCING, NACo URGES THAT MULTI-FAMILY HOUSING BONDS NOT BE SUBJECT TO A

VOLUME CAP, ARBITRAGE REBATE REQUIREMENTS OR ALTERNATIVE MINIMUM TAX. WE FURTHER URGE CONGRESS TO PROVIDE OTHER INCENTIVES IN THE TAX CODE TO STIMULATE INVESTMENT IN LOW-INCOME HOUSING, INCLUDING SHORTER DEPRECIATION SCHEDULES AND WAIVER OF PASSIVE LOSS LIMITATION RULES WHEN RENTAL PROPERTY MEETS THE TARGETING REQUIREMENTS FOR TAX-EXEMPT FINANCING.

LOW INCOME RENTAL ASSISTANCE

NACo SUPPORTS THE CONCEPT OF RENTAL CREDITS WHICH WOULD REPLACE VOUCHERS AND CERTIFICATES. WE ALSO SUPPORT USE OF THESE CREDITS EITHER AS TENANT-BASED OR PROJECT-BASED AND THE PROPOSAL TO PERMIT LOCALITIES TO SET FAIR MARKET RENTS. NACo IS PLEASED THAT THE CONCEPT PAPERS ACKNOWLEDGE THAT RENTAL ASSISTANCE FOR VERY LOW-INCOME PERSONS MUST REMAIN A FEDERAL RESPONSIBILITY.

SUPPORTIVE HOUSING

NACo IS PLEASED THAT THE CONCEPT PAPERS RECOGNIZE THE NEED TO LINK HOUSING POLICY WITH WELFARE REFORM. COUNTY HEALTH, EMPLOYMENT AND TRAINING, AND HUMAN SERVICES DEPARTMENTS NOW PROVIDE MANY OF THE SUPPORT SERVICES PROPOSED IN THE OUTLINE. NEW DELIVERY SYSTEMS MUST SUPPLEMENT, NOT DUPLICATE, THESE EXISTING SERVICES.

WE ARE AWARE OF THE CONTROVERSY SURROUNDING THE AFDC EMERGENCY ASSISTANCE PROGRAM. WE AGREE THAT THE USE OF AFDC EMERGENCY ASSISTANCE FOR WELFARE HOTELS IS NOT THE BEST USE OF FEDERAL, STATE AND LOCAL FUNDS, NOR IS IT BEST FOR HOMELESS FAMILIES. BUT, STATES AND COUNTIES RELY ON THIS PROGRAM BECAUSE THERE IS NO WHERE ELSE TO TURN. IN MANY RESPECTS THE USE OF AFDC EA REFLECTS THE LACK OF A NATIONAL HOUSING POLICY. UNTIL THERE ARE VIABLE ALTERNATIVES, WE URGE THE COMMITTEE TO MOVE VERY CAREFULLY WHEN CONSIDERING CHANGES IN THE PROGRAM.

MR. CHAIRMAN, THE NATIONAL ASSOCIATION OF COUNTIES APPRECIATES THIS OPPORTUNITY TO COMMENT ON THE STAFF PAPERS. WE LOOK FORWARD TO WORKING CLOSELY WITH THE SUBCOMMITTEE IN DEVELOPING AFFORDABLE HOUSING LEGISLATION WHICH ESTABLISHES CLEARLY DEFINED GOALS FOR THE NEXT DECADE.

COMMUNITY AND ECONOMIC DEVELOPMENT
STEERING COMMITTEE
RESOLUTION ON
PRESERVATION OF THE LOW INCOME HOUSING STOCK

WHEREAS, 645,000 low -income rental housing units receive federal assistance pursuant to the Section 221(d)(3) Below Market Interest Rate Program, Section 221 (d)(3) Market Rate Program with rental assistance, and the Section 236 Program; and

WHEREAS, 70 percent of the tenants in these properties have incomes below 50 percent of the median for their area, and one-fifth of the tenants are in property built for the elderly; and

WHEREAS, the National Low Income Housing Preservation Commission projects that in the absence of a preservation strategy, 43 percent or 280,000 units are likely to be lost from the low-income rental inventory over the next fifteen years through defaults on mortgages, and 38 percent or 243,000 units could be lost if owners prepay mortgages and convert properties to market-rent; and

WHEREAS, these properties are a vital resource that must be preserved in the low-income rental housing inventory;

THEREFORE BE IT RESOLVED, that the National Association of Counties recommends that Section 8 vouchers and certificates be designated for Section 221 (d)(3) and 236 properties to prevent defaults and prepayments;

BE IT FURTHER RESOLVED, that Fannie Mae and other governmental agencies be instructed to accept second mortgages on these properties; and

BE IT FURTHER RESOLVED, that the federal government should develop incentives such as below market interest rate mortgages and rehabilitation loans for owners who agree to continue use restrictions on these properties for the duration of the mortgage or loan. Congress should raise the cap on the rate of return, thereby allowing developers access to more of their equity, and raise rentals to Section 8 Fair Market rent levels where appropriate; and

Senator CRANSTON. Thank you, Mr. Hightower.
Mr. Carter.

STATEMENT OF FLOYD CARTER, VICE PRESIDENT, PUBLIC HOUSING AUTHORITIES DIRECTORS ASSOCIATION, WASHINGTON, DC

Mr. CARTER. Thank you, Mr. Chairman. I am here this morning testifying on behalf of the Public Housing Authorities Directors Association.

Everybody in this room is aware of the serious housing crisis that we face in the United States. Speaking for the Public Housing Authorities nationwide—most of them are in small towns and rural areas—I can assure you that reductions have been felt in local communities.

Therefore, that is one of the reasons we do support the Housing Opportunity Partnership.

We have some concerns regarding some of the formulas, some of the other issues. We do agree that a Housing Production Program is desperately needed in most communities across this country.

We would ask that you recognize that housing authorities, mostly small, have a great deal of expertise in developing new housing. Many have already formed partnerships with the local governments, nonprofits, and private developers. Their role in the process as the lead agency or partner should be strengthened so that already existing expertise is utilized.

We do question the restriction of limiting 25 percent of funds to publicly owned housing, and additionally we are concerned with the large portion of funds that would go to the States. We believe there is a definite strong preference on the part of housing authorities that those moneys be channeled directly to local communities and that the housing authorities work directly with the local government.

PROJECT INDEPENDENCE

In reference to some of the other issues, Project Independence for instance, we appreciate that the draft paper has, in large part, adopted our suggestions concerning self-sufficiency proposals for residents living in public housing. Public housing authorities must be given resources to assist those families living in the rental units to become self-sufficient and many housing authorities across the country are doing a number of innovative and creative programs with very limited resources.

In addition to public housing, we are faced with an aging population in our elderly facilities without the resources to provide the services for these purposes to continue living independently.

This program component is essential for local housing authorities to do their job and properly house the most vulnerable of our citizens. I would just add that we need to have a key role in designing the services at the local level, as we are the ultimate providers and ultimately get stacked with a myriad of regulations that prevent us from effectively implementing a lot of programs.

In regard to rental credits, we support the idea of having a single program that would allocate funds based on formula, provided that

there are sufficient resources made available to the individual communities.

Right now it would appear that if the moneys are available through this program are allocated nationwide, you would communities receiving one or two units of housing. Obviously, that is not very feasible.

Another concern that we have is that of public housing funding. I will not go into that except to say that we have some serious problems that the Housing Act of 1987 tried to address, but they still remain and they need to be addressed. These include insurance, modernization programs, and having some predictable way of funding these programs.

Another of our major concerns is deregulation and decontrol. We have strongly advocated and supported the efforts at the Federal level to return decisionmaking for basic day-to-day operations to the local housing authority. We would strongly encourage you to strengthen this section of the act and support the efforts that have been initiated in this area already.

In conclusion, we strongly recommend that there should be a Federal commitment to low-income housing based on partnership with States and local government. The Federal Government must provide leadership for housing policies that promotes partnership with States, local governments, and the private sector.

The ability to address the housing needs of this Nation requires a renewed effort on the part of all governments and the private sector, but one essential ingredient is a commitment of the Federal Government to be a full participant in partnership.

I think you have started on that road, and I commend you for all of the efforts that you have made, Mr. Chairman.

Senator CRANSTON. Thank you very much. And thank you for beating the 5 minutes. [Laughter.]

Mr. Lander.

STATEMENT OF CRESSWORTH C. LANDER, DIRECTOR, TUCSON COMMUNITY SERVICES DEPARTMENT, TUCSON, AZ, AND PRESIDENT, NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION

Mr. LANDER. Mr. Chairman and members of the subcommittee, I am Cressworth C. Lander, from the city of Tucson, director of the Tucson Community Services Department and president of the National Community Development Association.

NCDA is a membership organization representing over 425 cities and counties throughout the Nation that administer HUD housing and community development programs. I am pleased to have the opportunity to express our views on the proposals for the National Affordable Housing Act.

I would like to commend the chairman, Senator Alan Cranston, and ranking member, Senator Alfonse D'Amato, for their continued bipartisan leadership to enunciate a new national housing policy to provide affordable housing for our low- and moderate-income citizens.

I would like first to address what we believe is a key element of the concept papers. The investment in State and local housing strategies through the creation of a new Government-owned entity,

the Government National HOME Corporation, which would administer the housing opportunity partnerships—HOP—program. HOME will invest in HOP investment certificates, which are issued to States and localities to carry out their housing strategies, providing these government entities with long-term, low-cost capital to expand the supply of affordable housing.

NCDA strongly supports the provision requiring a locality to prepare a 5-year, annually updated housing strategy. This approach represents the kind of long-term and continuing commitment to solving local housing problems that is necessary.

We are pleased that the strategies acknowledge the important role of local governments and agencies in designing and producing affordable housing for low- and moderate-income households.

Since the enactment of the Community Development Block Grant [CDBG] local governments have developed the expertise in identifying local housing needs and strategies to address these needs in their housing assistance plans, the HAP. The local housing strategies requirement will build on this experience, and consideration should be given to coordinating the HOP strategy with the HAP plans.

NEEDS-BASED FORMULA ALLOCATION

In addition, we like the proposed needs-based formula allocation, 80 percent by formula, providing predictable entitlement funding to local governments and 20 percent by national competition.

However, we are concerned that under the proposed formula distribution of the HOP investment certificates, 50 percent of the 80 percent entitlement funds would go to States and the remaining 50 percent to localities. While we recognize that some States have begun to play a more significant role in providing affordable housing, this is not reflective of overall State commitments to providing low- and moderate-income housing assistance.

We believe the majority of the funds should be allocated to local governments who have by necessity played the preeminent role, over the last several years, in providing low- and moderate-income housing and are in the best position to determine the full spectrum of local needs and respond accordingly. Clearly, States need to be partners with their local governments and agencies and should be encouraged to participate in the implementation of local housing strategies and programs.

We strongly support the 10 percent set-aside of funds for non-profit organizations.

These nonprofit groups tend to have a significant commitment to the local community and have increasingly become important players in local housing partnerships. They should be funded where it can be determined that there is a demonstrated capacity of the nonprofit to produce and maintain affordable housing.

The wide range of resources referred to in the concept paper for meeting the required match of HOP certificates by States and localities, from cash to in-kind services, appears to make this requirement less difficult to comply with. However, some stipulation should be made for a waiver for those economically distressed com-

munities which do not have the fiscal capacity to provide the match.

One of the principles enunciated by Senator Cranston in developing the framework of the National Affordable Housing Act was to provide Federal assistance that is "very flexible so that it can be adapted to differing local conditions."

Unfortunately, the 25 percent limitation on the use of HOP funds for publicly owned housing undermines that local flexibility, as does the prohibition on using HOP assistance for moderate rehabilitation and restricting acquisition of existing housing only through limited equity partnerships.

We support a stronger block grant approach providing housing assistance that truly enhances local flexibility to design the best combination of housing programs responsive to the particular local housing market.

If support of public housing, doing moderate rehabilitation or permitting entities other than limited equity coops from acquiring properties is a local priority and need, it should not be eliminated as a fundable, eligible local activity.

In the interest of time I would like to summarize the remainder of my statement.

We discuss the HOME Corporation. We also discuss targeting and the preservation of affordable housing and special needs.

In conclusion, let me say that we believe that the success of any housing legislation is contingent on adequate funding.

Your efforts to move housing back on to the list of national priorities is a recognition that our Nation is facing an affordable-housing crisis. It would be up to Congress and the next administration to provide the necessary funding for housing to seriously address this crisis.

Already-stretched Community Development Block Grant funds must not be used in any way as a resource to implement programs under the new housing legislation. Community Development Block Grants must continue to remain separate and apart to carry out its unique community role.

Mr. Chairman and members of the subcommittee, I thank you for the opportunity to express the views of the National Community Development Association on this important effort by the subcommittee to craft a National Affordable Housing Act. We look forward to working with you and to making the affordable-housing dream a reality.

[The complete prepared statement of Mr. Lander follows:]

BE IT FURTHER RESOLVED, that owners should be required to file annual statements and indicate whether property is likely to be disposed of through default or prepayment within twenty-four months. The Department of Housing and Urban Development should advise local governments of possible conversions; and

BE IT FURTHER RESOLVED, that tenant organizations should have first right of refusal to purchase developments in which an owner intends to prepay a mortgage. If a tenant organization or its designated nonprofit organization elects not to purchase the development, then local government agencies and finally state housing agencies should have the option to purchase the property; and

BE IT FURTHER RESOLVED, that HUD should amend regulatory agreements in order to activate preservation incentives, including grants and loans, as authorized by Public Law 100-242.

Adopted by Community and Economic Development Steering Committee (unanimous)
August 6, 1988

Adopted by Board of Directors (unanimous)
August 7, 1988

**COMMUNITY AND ECONOMIC DEVELOPMENT STEERING
COMMITTEE RESOLUTION
URGING THE UNITED STATES CONGRESS TO ADOPT A
NATIONAL HOUSING POLICY REAFFIRMING A STRONG
FEDERAL ROLE IN STIMULATING AND UNDERWRITING
AFFORDABLE HOUSING OPPORTUNITIES**

WHEREAS, the federal government has long enunciated the goal of a decent home and a suitable living environment for all Americans; and

WHEREAS, federal expenditures to stimulate production of new affordable housing for low and moderate income persons steadily increased until 1981, but have declined by 70 percent since 1981; and

WHEREAS, during this time, county governments have tried to fill the gap through issuance of tax exempt bonds, use of state and local revenues and other means to provide financing for affordable housing; and

WHEREAS, there continues to be an overwhelming need for direct federal expenditures for the acquisition, construction and rehabilitation of affordable housing; and

WHEREAS, the Community and Economic Development Steering Committee has adopted a comprehensive Proposal for a New National Housing Policy;

THEREFORE BE IT RESOLVED, that the National Association of Counties hereby calls on the United States Congress to adopt, as a priority, a national housing policy which reaffirms a strong federal role in stimulating affordable housing opportunities; and

BE IT FURTHER RESOLVED, that the National Association of Counties hereby calls upon Congress to adopt new housing legislation which incorporates the following principles that are contained in the Proposal for a New National Housing Policy prepared by the Community and Economic Development Steering Committee:

- Federal housing legislation should formalize a major federal underwriting role while acknowledging the preeminent role of local governments and agencies in designing and producing affordable housing for low and moderate income households. Any new housing initiative must build on the significant capacity and experience developed by local governments and

agencies which by necessity have become major players in producing and providing affordable housing.

- Congress should establish clear annual housing goals and provide an adequate and predictable level of funding for housing.
- Federal housing legislation should provide local governments with maximum flexibility in the use of assistance so that they can tailor programs to address local needs.
- National housing policy should provide assistance that is targeted to a range of income groups from very low to moderate income and encourage mixed income housing developments. Concentrations of low-income persons should be avoided. Deep subsidies to make housing affordable for very low-income persons must remain a federal responsibility.
- Congress should develop a new structure to fund housing production including new construction, rehabilitation and acquisition. Funds should be allocated directly to urban counties and metropolitan cities and to states for distribution to small cities and nonentitlement counties. Jurisdictions receiving assistance should be required to adopt a housing strategy which describes affordable housing needs and a method to address those needs.
- The federal government should provide separate funds for public housing operating subsidies and comprehensive improvement assistance and for rental subsidies that are project-based and tenant-based.
- Separate federal funds should be appropriated for the preservation of public housing and assisted housing, including Sec. 221(d)(3) and Sec. 235 units.
- Congress should modify federal tax code provisions to ensure that tax-exempt finance and investment incentives are of maximum benefit in financing affordable rental housing.
- Congress should encourage homeownership through various insurance and guarantee programs and modify and extend the Mortgage Revenue Bond program to assist first-time moderate-income homebuyers.
- Congress should provide incentives to help ensure that existing low-income housing stock is preserved for low-income persons.

- Congress should expand the federal government's role in credit enhancement.

Adopted by Community and Economic Development Steering Committee (unanimous)
August 6, 1988

Adopted by Board of Directors (unanimous)
August 7, 1988

COMMUNITY AND ECONOMIC DEVELOPMENT STEERING
COMMITTEE RESOLUTION
URGING CONGRESS TO EXTEND THE MORTGAGE REVENUE BOND
SUNSET

WHEREAS, homeownership has long been characterized as "The American Dream"; and

WHEREAS, that dream has become more elusive for many potential first-time homebuyers unable to qualify for conventional mortgage assistance, as evidenced by the following:

- Between 1980 and 1986 the percentage of Americans owning their own home fell from 65% to 63.8%;
- From 1976 to 1986 home prices rose nationally by 108% while median family income rose 97%;
- Rents today are rising faster than inflation, siphoning off income which could otherwise be available for a downpayment; and

WHEREAS, in response, counties and other local and state governments have extended assistance to low and moderate income first-time homebuyers through issuance of tax exempt Mortgage Revenue Bonds (MRB) and Mortgage Credit Certificates (MCC); and

WHEREAS, the Tax Reform Act of 1986 imposes new restrictions on the MRB and MCC programs, including limiting such assistance to households with incomes up to 115% of median (140% in targeted areas) and to homes for which the purchase price is limited to 90% of the area median (110% in targeted areas), thus increasing their targeting to low and moderate income persons; and

WHEREAS, authority to issue Mortgage Revenue Bonds and Mortgage Credit Certificates sunsets on December 31, 1988; and

WHEREAS, in light of the benefits provided to low income and moderate income, first-time homebuyers by the Mortgage Revenue Bond and Mortgage Credit Certificate programs, it is in the national interest to extend the authority for their issuance; and

WHEREAS, HR 2640, which is cosponsored by a bipartisan group of 367 members of the House of Representatives and S. 1522, which is cosponsored by a bipartisan group of 78 Senators, extending the sunset until December 31, 1992, have been introduced in Congress; and

WHEREAS, the House has passed a two year extension of Mortgage Revenue Bonds and Mortgage Credit Certificates as part of technical corrections to the 1986 and 1987 tax acts (HR 4333), but adopted new restrictions which could limit the effectiveness of these programs by requiring arbitrage profits to be rebated to the federal government, imposing a three year loan origination period, imposing household size adjustments on applicable income limits, and requiring recapture of a portion of the subsidy if a home is sold within ten years;

THEREFORE BE IT RESOLVED, that the National Association of Counties hereby strongly supports HR 2640 and S. 1522 and urges passage during the second session of the 100th Congress; and

BE IT FURTHER RESOLVED, that the National Association of Counties opposes restrictions on Mortgage Revenue Bonds and Mortgage Credit Certificates in HR 4333 which would require arbitrage profits to be rebated to the federal government, impose a three-year loan origination period, impose household size adjustments, and require recapture of a portion of the subsidy if a home is sold at any time; and

BE IT FURTHER RESOLVED, that the National Association of Counties opposes the restriction in HR 4333 that prohibits localities from issuing government bonds to finance housing outside their jurisdiction.

Adopted by Community and Economic Development Steering
Committee (unanimous)
August 6, 1988

Adopted by Board of Directors (unanimous)
August 7, 1988

— COMMUNITY AND ECONOMIC DEVELOPMENT STEERING
COMMITTEE
RESOLUTION ON
USE OF TAX CODE FOR MULTI-FAMILY RENTAL HOUSING

WHEREAS, the federal tax code has been a catalyst for the development and rehabilitation of multi-family rental housing; and

WHEREAS, the 1986 tax reform act placed restrictions on incentives to invest in housing by lengthening depreciation schedules, subjecting real estate to the passive loss limitation rules and an alternative minimum tax, lowering tax rates on ordinary income and eliminating the capital gains exclusion and by placing tax-exempt housing bonds under a unified volume cap; and

WHEREAS, the 1986 tax reform act authorized low-income housing tax credits, but limited applicability of these credits;

THEREFORE BE IT RESOLVED, that the National Association of Counties urges Congress to provide incentives in the tax code to stimulate investment in low-income housing, including shorter depreciation schedules and waiver of passive loss limitation rules when rental property meets the targeting requirements for tax-exempt financing ; and

BE IT FURTHER RESOLVED, that the National Association of Counties supports multi-year extension of low-income housing tax credits and expansion of their use for existing low-income projects, removal of the penalty which lowers the value of the tax credit from nine-percent to four percent when used in conjunction with tax-exempt financing or federal funds, and raising the income level for purchasers of tax credits; and

BE IT FURTHER RESOLVED, that tax-exempt multi-family housing bonds should not be subject to a volume cap, arbitrage rebate requirements or alternative minimum tax.

Adopted by Community and Economic Development Steering
Committee (unanimous)
August 6, 1988

Adopted by Board of Directors (unanimous)
August 7, 1988

Senator CRANSTON. Thank you.

Has Mayor Latimer arrived? He is supposed to be a member of this panel. I guess he was delayed.

VOICE. He has not gotten here, sir.

Senator CRANSTON. I have some questions that I asked of the previous panel, and I would like to get your view of the same matters.

First of all, from your experience, what is it about housing assistance that requires strong Federal support, and what would happen if housing assistance was left solely to States and local Governments? And specifically, how would you respond to those who propose that we merge the CDBG with Federal housing funds and give States and localities one large, flexible grant?

Whoever would like to lead off on that, please do.

SHOULD HOUSING ASSISTANCE BE LEFT SOLELY TO STATES

Mr. CARTER. I will. I think to some extent, Senator, you can begin to see some of what has occurred. In this administration, it was suggested that States and localities ought to do it because the Federal Government could not afford it.

We have spent 7 years with dwindling or reducing the amount of Federal assistance. And while there have been areas where some States and some localities have in fact been very creative and added funds, in most communities and localities the dollars simply are not there. And States and local governments have not assumed that role, and there has been a gap.

I think that is directly reflected in the homeless problem that we have and the housing crisis that we have across this country.

So, I think there has to be a recommitment by the Federal Government, and I don't believe the States and localities have the resources to step in and fill that void completely.

Ms. RATTLEY. Sir, may I say that it appears to me that to try to sort out the roles of the different levels of government, it is quite clear, to me anyway, that help must come from the Federal Government, simply because housing is a necessity for life. It is not a luxury.

We see our citizens on the streets. We see young families with children on the streets with no place to live. But at the same time, we have a tremendous investment in this country in housing, and many of those housing units are boarded up because we have not provided rehabilitation over the years.

It appears to me as though we have not had a housing policy for the last 7 or 8 years, and that is why we are beginning to see all of these human problems out there. If the Federal Government doesn't have a role in providing this housing, I think we will see more of that.

This country cannot afford that. We must be able to house our citizens and we must be able to feed them—at least those two things.

A bare covering for the body, food, shelter, and clothing—when I went to school were told to me to be the necessities of life.

At this point in our history, we have people who work every day. They go out and work. They are not on welfare. Yet, they cannot afford the cost of housing.

Many people are paying as much as 50 percent of their income, which leaves them very little to educate their children, to buy food, to give them any hope for the future.

And if the help is not coming from the Federal Government, where will it come from?

In Newport News, for example, we cannot levy taxes unless we are given the authorization through the State government.

And the State governments basically have not played much of a role in providing houses. And we all know that.

I don't know that in 1988, all at once they will decide that they want to take over this responsibility. These are our people who live in our country and we say to them, "We don't have space for you."

And of course, this has been going on for years, and nobody paid a lot of attention. But now that we have some of the yuppies and the buppies who cannot afford housing, we are beginning to pay attention to the need. Well, what's wrong? These professionals who are making a good salary and yet they cannot find affordable housing. So, now someone is beginning to listen.

I think it is very clear to me as an elected official, someone who has been out there for 18 long years and I have had people come to my office and to my home in their cars, filled with their worldly possessions, not much of anything, and all of their children, and said, "Here I am, mayor. Where are we going to stay?"

You cannot answer that question. We cannot hide. We see them in the grocery stores. We see them on the streets. I think this has to be answered. I think we all have a role to play.

Certainly, at Newport News, we have been working for years to at least try to follow the codes, to give grants and loans from the CDBG money to help people, especially the elderly, to renovate their houses, to stop the water from coming in, to ensure that they will have a place to live.

These are people who worked their whole lives to own a little shack, and then in their later years they have no money to even rehab the property.

So, we have so many problems emanating from inadequate housing that I think that should be the promise of America, that should be the dream, that we would make it possible for all our citizens to have affordable housing.

Senator CRANSTON. Thank you. I appreciate your answer.

Mr. HIGHTOWER. I would like to echo the comments of my colleague, Mayor Rattley, but also add a couple of comments on your questions, especially since you brought in the role of the Federal Government.

I was listening to the prior panel talk about the priorities facing our Nation as outlined by the candidates for President. I would suggest and hope for you that I think housing ranks certainly in the top three issues facing our country for the next decade ahead.

I think that the Federal Government should play a major role in underwriting the cost of housing, while recognizing the role, again, of counties and other locals in designing and producing affordable housing.

As it relates to the CDBG and the housing plan in terms of the combination, NACo has early on supported that concept, but we

are concerned with the possibility of fewer resources, if in fact those two programs are merged.

So, yes, I would like to further that thought as it relates to combination, but the reality is that if, in fact, funds would be less, we would be concerned about that, Mr. Chairman.

Mr. WEBDALE. Mr. Chairman, I would like to follow up on the comments made in answer to your question on both the CD and the Federal responsibilities.

We cannot afford locally to carry the responsibility of providing safe, decent, sanitary housing for all of our families. We've tried, across the river in Fairfax County. We have our own local program which provides housing for people down to 50 percent of the median income. And at that point we just don't have the local resources anymore to put money into housing programs for the very poor and for the working poor.

We need the help of the Federal Government, which has the tax resources to help these families. As you know, in the metropolitan area you can work a full-time job and you come to Fairfax County, Virginia and the only shelter you can find that you can afford will be one of our shelters.

I think that is a very serious—not only serious problem here but in many of the metropolitan areas. And the localities have to look to the Federal Government to help those particular families.

Second, on CD, I have been involved with the block grant program since its inception in 1974, and we have always seen, when we get into that kind of a block grant, every other social need that arises, someone says, "Well, you get CD money. Why don't you use some of that to take care of this problem?"

We have seen the money for CD decline and the number of uses for it increase. Now, if we go and put housing in the same pot, am I then going to hear from someone, "Oh, you have a choice. You can have new production in your community, through the block grant that you get for housing, or you can use it for section 8."

Those are not the choices. I need the section 8. I need that in subsidy. I also need money for production and money for preservation.

Mr. LANDER. We seem to look at some States on the extreme east coast as if all of the States in the United States have the same kind of commitment to providing housing.

I submit to you that in my State of Arizona, which became a State in 1912, not a single dollar of state money has ever been used for low and moderate income housing. We do not have a State housing finance agency. We just passed enabling legislation this year to establish such an agency.

Arizona is not alone. There are many States that have no commitment whatsoever to low and moderate income housing, and I think the record will prove that.

What we are saying is that the Federal Government must continue the commitment to low and moderate income housing, a commitment has been diminishing over the last 6, 7, 8 years.

On the other question of community development block grants, I think, as indicated earlier, we seem to be getting a lesser amount of funding for community development block grants, but the eligibility list keeps expanding. More things are now eligible, but I

submit to you that the community development block grant is the glue that holds communities together.

Through CDBG, we do the housing assistance plan. We can run a rental rehab program that provides no administrative costs because you have a community development block grant.

We can run a 312 loan program in our community, because we have a community development block grant. It is the essential element for providing human services as well as the infrastructure in the community.

So I submit to you the community development block grant should not be included as part of the housing initiatives being considered.

Senator CRANSTON. Thank you very much. Your responses are very helpful.

From your experience, what are the benefits of a one-stop agency for States and localities? Would it make just as much sense to provide Federal housing assistance through several offices in HUD, some through an Office of Housing Block Grant, some through Ginnie Mae, some through FHA, and perhaps other through other offices, or should we try to develop a one-stop approach?

ONE-STOP AGENCY APPROACH

Ms. RATTLEY. I like the one-stop approach because when you have so much bureaucracy the funds never get to the people, and I think that is part of our problem now. If you had a small staff, they knew what they were doing, and you understood the program, to me that would serve our community much better because the proceeds, the money, would go directly to providing houses rather than paying salaries to people to administer.

Mr. WEBDALE. I would certainly agree that the one-stop approach would certainly work much better than what we presently have today, but I think there is a caveat to the one-stop approach. It has to look at programs that work in localities and meet the local needs and goals for the localities.

Oftentimes, even in the supermarket approach we have now, we approach an agency and they say those are the housing goals of your community, but they are not the housing goals of this agency.

So a one-stop agency would say, yes, we have a program, we can tailor it to your local needs, and that would save us a lot of time, effort, and a lot of programs would be developed.

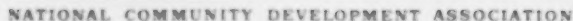
Mr. LANDER. Mr. Chairman, the one-stop shop would work if it were, No. 1, adequately funded and, No. 2, if it had the clout to pull the program off.

Too many times we have an agency, but they do not have the funding to carry out its mission, and sometimes they don't have the clout within that department to pull all the resources together, even within that department.

Senator CRANSTON. How do we make sure it has that clout?

Mr. LANDER. I think you give it the clout by giving it adequate funding.

Mr. CARTER. I would just add that recently we did a survey, nationwide survey of our membership in terms of the carrying out of some of the HUD programs as it relates to public housing authori-



ON THE
NATIONAL AFFORDABLE HOUSING ACT

BEFORE THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

STATEMENT OF
CRESSWORTH C. LANDER
TUCSON, ARIZONA
SEPTEMBER 21, 1988

NCDA IS A MEMBERSHIP ORGANIZATION REPRESENTING OVER 425 CITIES AND COUNTIES THROUGHOUT THE NATION THAT ADMINISTER HUD HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS.

I AM PLEASED TO HAVE THE OPPORTUNITY TO EXPRESS OUR VIEWS ON THE PROPOSALS FOR THE NATIONAL AFFORDABLE HOUSING ACT.

I WOULD LIKE TO COMMEND THE CHAIRMAN, SENATOR ALAN CRANSTON AND RANKING MEMBER, SENATOR ALFONSE D'AMATO FOR THEIR CONTINUED BIPARTISAN LEADERSHIP TO ENUNCIATE A NEW NATIONAL HOUSING POLICY TO PROVIDE AFFORDABLE HOUSING FOR OUR LOW- AND MODERATE-INCOME CITIZENS.

STATE AND LOCAL HOUSING STRATEGIES

I WOULD FIRST LIKE TO ADDRESS WHAT WE BELIEVE IS A KEY ELEMENT OF THE CONCEPT PAPERS, THE INVESTMENT IN STATE AND LOCAL HOUSING STRATEGIES THROUGH THE CREATION OF A NEW GOVERNMENT-OWNED ENTITY, THE GOVERNMENT NATIONAL HOME CORPORATION WHICH WOULD ADMINISTER THE HOUSING OPPORTUNITY PARTNERSHIPS (HOP) PROGRAM. "HOME" WILL INVEST IN HOP INVESTMENT CERTIFICATES, WHICH ARE ISSUED TO STATES AND LOCALITIES TO CARRY OUT THEIR HOUSING STRATEGIES, PROVIDING THESE GOVERNMENT ENTITIES WITH LONG-TERM, LOW-COST CAPITAL TO EXPAND THE SUPPLY OF AFFORDABLE HOUSING.

NHDA STRONGLY SUPPORTS THE PROVISION REQUIRING A LOCALITY TO PREPARE A FIVE-YEAR, ANNUALLY UPDATED, HOUSING STRATEGY. THIS APPROACH REPRESENTS THE KIND OF LONG-TERM AND CONTINUING COMMITMENT TO SOLVING LOCAL HOUSING PROBLEMS THAT IS NECESSARY.

WE ARE PLEASED THAT THE "STRATEGIES" ACKNOWLEDGE THE IMPORTANT ROLE OF LOCAL GOVERNMENTS AND AGENCIES IN DESIGNING PROGRAMS AND PRODUCING AFFORDABLE HOUSING FOR LOW- AND MODERATE-INCOME HOUSEHOLDS.

SINCE THE ENACTMENT OF THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG), LOCAL GOVERNMENTS HAVE DEVELOPED THE EXPERTISE IN IDENTIFYING LOCAL HOUSING NEEDS AND STRATEGIES TO ADDRESS THESE NEEDS IN THEIR HOUSING ASSISTANCE PLANS (HAP). THE LOCAL HOUSING STRATEGIES REQUIREMENT WILL BUILD ON THIS EXPERIENCE AND CONSIDERATION SHOULD BE GIVEN TO COORDINATING THE HOP STRATEGY WITH THE HAP PLANS.

IN ADDITION, WE LIKE THE PROPOSED NEEDS BASED FORMULA ALLOCATION, 80 PERCENT BY FORMULA, PROVIDING PREDICTABLE ENTITLEMENT FUNDING TO LOCAL GOVERNMENTS AND 20 PERCENT BY NATIONAL COMPETITION.

HOWEVER, WE ARE CONCERNED THAT UNDER THE PROPOSED FORMULA DISTRIBUTION OF THE HOP INVESTMENT CERTIFICATES, 50 PERCENT OF THE 80 PERCENT ENTITLEMENT FUNDS WOULD GO TO STATES AND THE REMAINING 50 PERCENT TO LOCALITIES. WHILE WE RECOGNIZE THAT SOME STATES HAVE BEGUN TO PLAY A MORE SIGNIFICANT ROLE IN PROVIDING AFFORDABLE HOUSING, THIS IS NOT REFLECTIVE OF OVERALL STATE COMMITMENTS TO PROVIDING LOW- AND MODERATE-INCOME HOUSING ASSISTANCE.

WE BELIEVE THE MAJORITY OF THE FUNDS SHOULD BE ALLOCATED TO LOCAL GOVERNMENTS WHO HAVE BY NECESSITY PLAYED THE PREMINENT ROLE, OVER THE LAST SEVERAL YEARS, IN PROVIDING LOW- AND MODERATE-INCOME HOUSING AND

ARE IN THE BEST POSITION TO DETERMINE THE FULL SPECTRUM OF LOCAL NEEDS AND RESPOND ACCORDINGLY. CLEARLY, STATES NEED TO BE PARTNERS WITH THEIR LOCAL GOVERNMENTS AND AGENCIES AND SHOULD BE ENCOURAGED TO PARTICIPATE IN THE IMPLEMENTATION OF LOCAL HOUSING STRATEGIES AND PROGRAMS.

NON-PROFITS

WE STRONGLY SUPPORT THE 10 PERCENT SETASIDE OF FUNDS FOR NON-PROFIT ORGANIZATIONS.

THESE NON-PROFIT CORPORATIONS TEND TO HAVE A SIGNIFICANT COMMITMENT TO THE LOCAL COMMUNITY AND HAVE INCREASINGLY BECOME IMPORTANT PLAYERS IN LOCAL HOUSING PARTNERSHIPS. THEY SHOULD BE FUNDED WHERE IT CAN BE DETERMINED THAT THERE IS A DEMONSTRATED CAPACITY OF THE NON-PROFIT TO PRODUCE AND MAINTAIN AFFORDABLE HOUSING.

MATCHING REQUIREMENTS

THE WIDE RANGE OF RESOURCES REFERRED TO IN THE CONCEPT PAPER FOR MEETING THE REQUIRED MATCH OF HOP CERTIFICATES BY STATES AND LOCALITIES FROM CASH TO INKIND SERVICES APPEARS TO MAKE THIS REQUIREMENT LESS DIFFICULT FOR LOCALITIES TO COMPLY WITH. HOWEVER, SOME STIPULATION SHOULD BE MADE FOR A WAIVER, FOR THOSE ECONOMICALLY DISTRESSED COMMUNITIES, WHICH DO NOT HAVE THE FISCAL CAPACITY TO PROVIDE THE MATCH.

USE OF FUNDS

ONE OF THE PRINCIPLES ENUNCIATED BY SENATOR CRANSTON IN DEVELOPING THE FRAMEWORK OF THE NATIONAL AFFORDABLE HOUSING ACT WAS TO PROVIDE FEDERAL ASSISTANCE THAT IS "VERY FLEXIBLE SO THAT IT CAN BE ADAPTED TO DIFFERING LOCAL CONDITIONS."

UNFORTUNATELY, THE 25 PERCENT LIMITATION ON THE USE OF HOP FUNDS FOR PUBLICLY OWNED HOUSING SIGNIFICANTLY UNDERMINES THAT LOCAL FLEXIBILITY, AS DOES THE PROHIBITION ON USING HOP ASSISTANCE FOR MODERATE REHABILITATION AND RESTRICTING ACQUISITION OF EXISTING HOUSING ONLY THROUGH LIMITED EQUITY COOPERATIVES.

WE SUPPORT A STRONGER "BLOCK GRANT" APPROACH PROVIDING HOUSING ASSISTANCE THAT TRULY ENHANCES LOCAL FLEXIBILITY TO DESIGN THE BEST COMBINATION OF HOUSING PROGRAMS RESPONSIVE TO THE PARTICULAR LOCAL HOUSING MARKET.

IF SUPPORT OF PUBLIC HOUSING, DOING MODERATE REHABILITATION OR PERMITTING ENTITIES OTHER THAN LIMITED EQUITY COOPS FROM ACQUIRING PROPERTIES IS A LOCAL PRIORITY AND NEED, IT SHOULD NOT BE ELIMINATED AS A FUNDABLE, ELIGIBLE LOCAL ACTIVITY BY NATIONAL LEGISLATION.

HOME CORPORATION

THE OTHER CRANSTON PRINCIPLE, WHICH WE BELIEVE IS UNDERMINED BY THE DRAFT CONCEPT PAPERS, IS TO PROVIDE FEDERAL HOUSING SUPPORT THAT IS "UNDERSTANDABLE AND STRAIGHTFORWARD AND THAT BUILDS ON WHAT WORKS."

WHILE WE APPRECIATE THE STAFF EFFORT TO CREATE AN INNOVATIVE HOUSING FINANCING MECHANISM, THROUGH THE CREATION OF THE HOME CORPORATION, WE FIND ITS PROPOSED OPERATION INCREDIBLY COMPLEX.

START UP TIME AT THE LOCAL LEVEL WOULD BE EXCESSIVE AND CONSIDERABLE TRAINING AND TECHNICAL ASSISTANCE WOULD BE REQUIRED. FURTHER EXASPERBATING THE PROBLEMS WE ARE TRYING TO SOLVE - PROVIDING AFFORDABLE HOUSING IN AN EFFICIENT AND TIMELY MANNER.

IN MANY JURISDICTIONS, ESTABLISHING LOCAL PROGRAMS TO POOL MORTGAGE BACKED SECURITIES MAY REQUIRE STATE ENABLING LEGISLATION, CAUSING ADDITIONAL COMPLICATIONS AND DELAYS.

IN ADDITION, QUESTIONS ARE RAISED WHETHER PROJECTS WILL REACH THOSE MOST IN NEED. THERE IS POTENTIAL FOR "SKIMMING" THE BEST PROJECTS AND NOT DOING HIGH RISK PROJECTS. THIS CONCERN IS HIGHLIGHTED IN THE CONCEPT PAPER WHERE ISSUERS, LESS EXPERIENCED IN UNDERWRITING AND FINANCING AFFORDABLE HOUSING AND UNABLE TO SHARE THE RISK OF DEFAULT, WOULD BE REQUIRED TO HAVE FHA INSURANCE, CO-INSURANCE OR OTHER FORMS OF MORTGAGE INSURANCE. MOST OFTEN THESE ARE THE KINDS OF ISSUERS THAT ARE LIKELY TO UNDERTAKE THE MORE RISKY LOW-INCOME HOUSING PROJECTS IN DISTRESSED COMMUNITIES.

POLITICALLY AND PROGRAMMATICALLY, WE UNDERSTAND THE STAFF PAPERS APPROACH IN DEVELOPING THE HOME CORPORATION TO LIMIT THE LEVEL OF BUDGET EXPOSURE FOR HOUSING ASSISTANCE DURING THIS TIME OF DEFICIT REDUCTION AND TO CAPITALIZE A HOUSING FINANCE MECHANISM, THAT OVER TIME WILL GENERATE ADDITIONAL RESOURCES. WE WOULD LIKE TO WORK WITH THE COMMITTEE TO COME UP WITH A SOLUTION THAT IS LESS CUMBERSOME THAN THE HOME CORPORATION/HOP APPROACH AND THAT MORE CLEARLY RELIES ON THE SIGNIFICANT CAPACITY DEVELOPED OVER THE PAST TEN TO FIFTEEN YEARS BY LOCAL GOVERNMENTS IN ADDRESSING HOUSING PROBLEMS, PRIMARILY THROUGH THE CDBG PROGRAM.

TARGETING

THE LACK OF TARGETING FAMILIES MOST IN NEED IS A MAJOR CONCERN. THERE IS NO SPECIFIC TARGETING OF THE HOP FUNDS AS TO THE PERCENTAGE OF UNITS THAT WOULD BE OCCUPIED BY "ELIGIBLE FAMILIES" AND TARGETING AS TO INCOME LEVELS OF HOUSEHOLDS WHICH WOULD BE THE PRIORITY RECIPIENTS OF HOUSING ASSISTANCE.

THE 1987 NCDA "HOUSING UTILITY GRANT" PROPOSAL SUBMITTED TO THE SUBCOMMITTEE CALLED FOR NO LESS THAN 50 PERCENT OF PROGRAM FUNDS TO BE TARGETED TO FAMILIES WHOSE INCOMES ARE AT OR BELOW 50 PERCENT OF THE AREA MEDIAN.

THE MARCH 1988 REPORT OF THE NATIONAL HOUSING TASK FORCE REINFORCED NCDA'S TARGETING CONCERNS BY RECOMMENDING THAT, "THE PRIMARY GOAL OF HOP IS TO HELP HOUSE LOW INCOME PEOPLE. THUS, HOP FUNDS WILL BE SUBJECT TO RIGOROUS TARGETING REQUIREMENTS. FOR THE NON-MATCHING PORTION OF FUNDS ... 80 PERCENT OF HOP FUNDS ARE DIRECTED TO ASSIST HOUSEHOLDS AT OR BELOW 50 PERCENT OF MEDIAN INCOME ... 100 PERCENT OF NON-MATCHING FUNDS WILL HAVE TO GO TO HOUSEHOLDS WITH INCOMES AT OR BELOW 80 PERCENT OF MEDIAN."

SPECIFIC INCOME TARGETING IS NECESSARY TO INSURE THAT SCARCE FEDERAL RESOURCES INVESTED IN LOW-INCOME HOUSING ARE USED APPROPRIATELY, AIDING THOSE MOST IN NEED.

SPECIAL NEEDS -- SUPPORTIVE HOUSING

WE APPLAUD THE INCLUSION IN THE CONCEPT PAPERS OF PROVISIONS RECOGNIZING THAT SUPPORTIVE SERVICES SHOULD BE LINKED TO HOUSING ASSISTANCE PROGRAMS. IN VIEW OF OUR INCREASING SOCIAL PROBLEMS OF SUBSTANCE ABUSE, MENTAL HEALTH, THE ELDERLY, HANDICAPPED AND THE HOMELESS IT IS ESSENTIAL THAT NEW HOUSING LEGISLATION CONTAIN MECHANISMS FOR SUPPORTIVE SERVICES TO ASSURE NOT ONLY ADEQUATE SHELTER BUT LONG-TERM SELF-SUFFICIENCY OF LOW-AND MODERATE-INCOME PERSONS.

THERE IS CONCERN, HOWEVER, THAT THE PROPOSED CREATION OF THE OFFICE OF THE ASSISTANT SECRETARY FOR SUPPORTIVE HOUSING COULD ISOLATE THE SPECIAL NEEDS PROGRAMS AND BUREAUCRATIC INATTENTION WILL

RESULT. THE NEW ASSISTANT SECRETARY MUST HAVE THE NECESSARY "CLOUT" AND RESOURCES TO ACHIEVE HIS OR HER MISSION.

PRESERVATION OF AFFORDABLE HOUSING

WE SUPPORT THE CONCEPT PAPERS FOCUS ON PROTECTING OUR EXISTING SUPPLY OF AFFORDABLE LOW- AND MODERATE-INCOME HOUSING, INCLUDING PROVIDING ADDITIONAL FUNDING FOR PUBLIC HOUSING MODERNIZATION. AS WITH THE PROPOSED ASSISTANT SECRETARY FOR SUPPORTIVE HOUSING, THE ASSISTANT SECRETARY FOR PRESERVATION MUST BE GIVEN THE SIGNIFICANT FINANCIAL RESOURCES AND ORGANIZATIONAL MUSCLE NECESSARY TO ADDRESS THIS CRUCIAL ASPECT OF OUR AFFORDABLE HOUSING EQUATION.

LOW-INCOME RENTAL ASSISTANCE

GENERALLY, NCDA SUPPORTS THE PROPOSED "RENTAL CREDITS", TO REPLACE THE CURRENT VOUCHERS AND SECTION 8 CERTIFICATES. PERMITTING STATES AND LOCALITIES TO PROVIDE THIS ASSISTANCE EITHER AS TENANT-BASED SUBSIDIES OR AS PROJECT-BASED SUBSIDIES IN CONJUNCTION WITH THE HOP PROVIDES IMPORTANT LOCAL FLEXIBILITY.

HOWEVER, WE WOULD PREFER THAT THE ORIGINAL SECTION 8 CONTRACT TERM OF 15 YEARS, WHICH IS MORE CONSISTENT WITH A LONG-TERM HOUSING STRATEGY BE UTILIZED THAN THE PROPOSED 5-YEAR TERM RENTAL CREDITS.

CONCLUSION

NCDA STRONGLY BELIEVES THAT THE SUCCESS OF ANY NEW HOUSING LEGISLATION IS CONTINGENT UPON ADEQUATE FUNDING.

YOUR EFFORT TO MOVE HOUSING BACK ON THE LIST OF NATIONAL PRIORITIES IS A RECOGNITION THAT OUR NATION IS FACING AN AFFORDABLE HOUSING CRISIS.

IT WILL BE UP TO CONGRESS AND THE NEXT ADMINISTRATION TO PROVIDE THE NECESSARY FUNDING FOR HOUSING TO SERIOUSLY ADDRESS THIS CRISIS.

ALREADY STRETCHED COMMUNITY DEVELOPMENT BLOCK GRANT FUNDING MUST NOT BE USED IN ANY WAY AS A RESOURCE TO IMPLEMENT PROGRAMS UNDER THE NEW HOUSING LEGISLATION. CDBG MUST CONTINUE TO REMAIN SEPARATE AND APART TO CARRY OUT ITS UNIQUE COMMUNITY DEVELOPMENT ROLE.

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I THANK YOU FOR THE OPPORTUNITY TO EXPRESS THE VIEWS OF THE NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION ON THIS IMPORTANT EFFORT BY THE SUBCOMMITTEE TO CRAFT A NATIONAL AFFORDABLE HOUSING ACT. WE LOOK FORWARD TO WORKING WITH YOU IN MAKING THE AFFORDABLE HOUSING DREAM A REALITY.

ties, and what we discovered in that survey was a great diversity of interpretation and implementation of the very same regulations from region to region across the country, and many of our members were extremely distressed at the fact that there was such a diversity of interpretation and implementation because of the different agencies and the different levels of administration.

And my reaction is that I think it would be a good idea. The problem we always get into is the implementation of a good idea. From the point of implementation to the point—from the point of idea to implementation, it winds up with so much dilution, for various reasons, that it doesn't work as well at the implementation stage as was envisioned at the planning stage.

Senator CRANSTON. Thank you very much.

Mr. HIGHTOWER. In my earlier testimony I indicated that the local government's participation should be based on their assessment of their capacity, and I would say given the various level of counties across the country, you need to take that into account as you look at the one-stop approach.

Yes, I think it is a good approach, but that is an important item.

Senator CRANSTON. We have expressed the need to coordinate housing strategies of the State and the localities within the State.

Do you have any suggestions as to how we should achieve that practically without having States and localities forced by Federal law to go through burdensome and wasteful review procedures?

Mr. LANDER. Mr. Chairman, I think if we had a housing strategy plan for the State as well as for the locality and it could be coordinated, it might work, and I don't see a 5-year housing strategy plan as being burdensome on either the local or the State government. There need to be Federal, State and local incentives for coordinating the State and local strategies. Perhaps some form of bonus funding or increased allocations.

Senator CRANSTON. The plan should not be burdensome. The question is on the reviewing process. We are trying to figure out ways to avoid unnecessary degrees of that. Some may praise the HOP approach of providing flexible assistance to states and localities, but there seems to be the claim that HOP can be funded without additional funding by diverting funds now provided for other low income housing programs.

What is your assessment of that?

Mr. WEBDALE. We have estimated that we have been losing \$100 million a year in housing assistance that was coming to the localities in the State of Virginia. The results of that have certainly been testified to by the mayor as to what the homelessness that we have is, and in Fairfax County it's a problem for people even with full-time jobs. There is no question that there is insufficient Federal money being allocated to localities to assist in dealing with these problems.

We in Fairfax County are spending \$10-20 million a year in housing over and above the few things that we do get from the Federal Government, and they are fewer and fewer all the time. We cannot meet the housing need unless there are more Federal dollars.

We have already asked our taxpayers to really pay extraordinary amounts to help us with this problem.

Mr. CARTER. I think any of us at the local level can readily tell you there are insufficient resources to get the job done, and I would mention something that Mayor Rattley said.

One of the big concerns at the local level is that we are seeing more and more people who are in fact the working poor, who are employed full time and are still in a situation where they don't have a place to live and cannot afford a place to live, and it is getting worse and not better. Some of these people are living full time in shelters with a full-time job and a family, and I don't believe that the current resources that have been made available and are being made available are anywhere near adequate to do the job.

Senator CRANSTON. I think this will be my last question.

You and others have noticed the difficulty of providing long term housing when rental assistance is provided through the 5-year contracts. I think that is correct, and yet we have the hard reality of the budget pressures largely precluding longer term commitments.

How do we deal with that dilemma?

DEALING WITH LONG TERM HOUSING

Mr. WEBDALE. I think maybe you have one of the answers already in the fact that your HOP payment is repayable if the housing is no longer being used for low and moderate income persons.

Presently, we have units insured under the 236 program and the eligible to prepay where we are desperately looking for some way to preserve those particular units.

But as I understand what the staff is suggesting in the concept paper, there is some money for counties, cities, and States that can be spent for low and moderate income housing, and this is to be a national investment in low and moderate income housing. Then if it stops being low and moderate income housing, we—the Federal Government—want our money back or you invest in some other low and moderate income housing.

I think that is part of the answer. But when we get below 50 percent of the median income in my jurisdiction, that takes a different pot of money. We are then talking about the section 8, et cetera, and the 5-year contract. I don't know how we get around that. It is a bullet that we have to bite.

Senator Graham mentioned transportation, et cetera, and health facilities. I would just say if you don't have a roof over your head, you are probably sick and you are not getting any help.

Ms. RATTLEY. Sir, may I just say that I personally appreciate your looking at this up front this time. We estimate that over a half million people will be homeless because of the payoff of mortgages and the upgrading of the properties to moderate rents. So we have a dilemma and we are talking about additional need for housing.

It would appear to me that we would have a formula somewhere, an opportunity for those tenants to become home owners 20 years down the road and try to end the cycle, the public housing cycle, and I think it is possible if we build that into the initiation of a program.

Some cities are trying now to have a management by those people who live in public housing. Some are experimenting with

maybe 10, 15, or 20 units at a time, hoping that those people can become home owners.

We have done some of that in Newport News with several of the programs, where we have encouraged people, poor people to own their homes and to instill in them a sense of pride, and I think possibly some incentives up front and understanding that after 20 years we want to have in place a plan for these people to purchase those homes, especially those who paid rents over the 20-year period, and I think they should be given that opportunity.

And that I think could be written in on an experimental basis. It certainly could be something that we would all be proud of if we were to invest now not only to house people for the next 20 years, but to ensure that their children would be able to inherit a place to live.

Mr. CARTER. I am not sure there is a simple answer to that, but I think there are a couple of things that perhaps can be done.

One is that while the contract term may be short term, I think that it is important at the Federal level that the commitment to long term affordable housing be espoused and articulated so that there is a clear understanding at the local level in the design of the programs that in fact the Federal Government is going to be there beyond that 5-year period, or whatever timeframe you are committing legally to.

Second, I think it behooves you to direct the local communities that are designing the actual housing programs to come up with viable options in terms of ensuring the long term affordability of the housing which they are going to produce.

Senator CRANSTON. Thank you very much.

The missing member of our panel has arrived just in the nick of time. We were just about to recess this hearing.

I am delighted you got here, George, and we would like to hear briefly your testimony.

What we have asked all of the witnesses to do is to summarize for not more than 5 minutes your statement. We have the lights here to give you guidance on that.

Thank you for being with us.

STATEMENT OF GEORGE LATIMER, MAYOR, ST. PAUL, MN, REPRESENTING THE NATIONAL LEAGUE OF CITIES

Mr. LATIMER. I am grateful for the 5 minutes, and thank you very much.

Mr. Chairman, I am George Latimer, mayor of the city of St. Paul and past president of the National League of Cities.

In light of your admonition about time, I ask that you accept in total the written submission and text from the National League of Cities for your record.

Senator CRANSTON. That will go in the record.

Mr. LATIMER. I can be brief and quite simple because of the ample evidence you have received so far.

I think it is appropriate that I am here at the last minute because I came from the hinterlands of North Dakota and Minnesota, where last night I met with a group of 200 some people who are

dealing with the issue of homelessness in Morehead and Fargo and that area.

I think it is worth mentioning that because, Mr. Chairman, of your leadership and the bipartisan leadership, indeed, with Senator D'Amato, I think it is time now for the Nation to revisit its unfinished business relevant to the housing of all of its citizens, poor as well as not so poor, and it is appropriate that just last night I could see that mid-America, a place you would not expect to be so sensitive and deluged with the issue, in fact throughout this country I see bipartisan support for your leadership in this area.

Let me stress what I consider to be two or three of the most important parts of your initiative.

First of all, I urge you to continue to support this notion of flexibility through block grants. I urge you to continue to acknowledge the tremendous activities of not-for-profits in this whole business, in this whole mission of providing housing for people from every walk of life.

In the cities of St. Paul and Minneapolis, as a result of a not-for-profit grant, a substantial one from the McKnight Foundation, for \$15 million some 6, 7 years ago, we have provided 6,000 housing units for low and moderate income families, and perhaps 20 to 25 percent of them would be people who would be qualified for housing under the terms of your proposed act.

Therefore, I have seen firsthand evidence that in fact the not-for-profit and local sector is prepared to join in partnerships.

No. 3, let me reaffirm what Mr. Rouse said to you and what you yourself have said many times, and that is with the greatest energy and innovation in the world on the part of local not-for-profits and local governments it is critical that the Federal Government reaffirm its commitment to housing.

We all heard the numbers. We know the cutback that has been from somewhere around \$38 billion to about \$13 billion just in the past 7 or 8 years, but beyond that I believe that we have betrayed the bipartisan commitment made by your body under the leadership of then Robert Taft of Ohio, not considered a great liberal at that time, but who said that housing for every American was reachable and that if they could afford to pay up to 25 percent of housing the Federal Government should be prepared to match.

I think that kind of spirit pervades your proposal, Mr. Chairman. On behalf of the National League of Cities and the people of St. Paul, I congratulate you for it.

My last comment or two will be—not seeing any light yet—will be, perhaps speaking as much for myself as anyone else, I am skeptical of the need for an expanded or a new office to administer a program that should really be at the heart of our effort. It seems to me a well-run administration assigned to the proper Assistant Secretary the implementation of the special needs, the special populations that we care about can achieve the objectives of the bill.

Mr. Chairman, thank you very much.

[The complete prepared statement of Mr. Latimer follows:]



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STATEMENT OF

THE HONORABLE GEORGE LATIMER
MAYOR OF ST. PAUL, MINNESOTA

on behalf of

THE NATIONAL LEAGUE OF CITIES

on the

NATIONAL AFFORDABLE HOUSING ACT CONCEPT PAPERS

before the

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
U.S. SENATE

September 21, 1988

STATEMENT

OF

THE HONORABLE GEORGE LATIMER, MAYOR OF ST. PAUL, MINNESOTA

ON BEHALF OF

THE NATIONAL LEAGUE OF CITIES

SEPTEMBER 21, 1988

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE: I AM GEORGE LATIMER, MAYOR OF ST. PAUL, MINNESOTA. I AM HERE TODAY TO TESTIFY, ON BEHALF OF THE NATIONAL LEAGUE OF CITIES AND THE 15,000 CITIES AND TOWNS ACROSS THE NATION THAT WE REPRESENT, ON THE STAFF CONCEPT PAPERS FOR THE PROPOSED NATIONAL AFFORDABLE HOUSING ACT.

TAX POLICY

IF I MAY TAKE A MOMENT MR. CHAIRMAN, PRIOR TO DISCUSSING THE PARTICULAR CONCERNS WE HAVE WITH THE CONCEPT PAPERS, THERE IS A RELATED AREA THAT IS KEY TO ANY DISCUSSION OF HOUSING POLICY.

IN THE PAST SIX YEARS THE DISINVESTMENT IN LOW AND MODERATE INCOME HOUSING HAS COME ON TWO FRONTS--THE DIRECT AND TAX SIDES. EVEN AS THE DIRECT FEDERAL COMMITMENT HAS ERODED, THE FEDERAL GOVERNMENT HAS IMPOSED MORE AND MORE RESTRICTIONS ON THE ABILITY AND AUTHORITY OF STATES AND LOCAL GOVERNMENT TO FINANCE HOUSING OPPORTUNITY FOR FIRST TIME HOMEBUYERS AND LOW AND MODERATE INCOME FAMILIES. IT IS A DOUBLE WHAMMY.

EVEN AS I TESTIFY HERE THIS MORNING THERE ARE TAX PROVISIONS PENDING WHICH WILL FURTHER ERODE THE ABILITY OF ST. PAUL TO

PROVIDE HOUSING OPPORTUNITIES. YET THE CONCEPT PAPERS ARE SILENT ON WHAT NOW IS CLEARLY THE MOST DOMINANT FEDERAL ROLE IN SETTING FEDERAL HOUSING POLICY. TO US IT IS AS IF THE MOST IMPORTANT ISSUE IS SIMPLY IGNORED.

IF WE ARE TRULY TO CREATE A NEW FEDERAL HOUSING POLICY OUGHT NOT ALL THE ISSUES--ESPECIALLY THE MOST EXPENSIVE--BE PART OF THAT DISCUSSION?

SOME, FOR INSTANCE, HAVE SUGGESTED THAT WE SHOULD SIMPLY CREATE A REFUNDABLE HOUSING TAX CREDIT THAT WOULD BE AVAILABLE TO EVERY AMERICAN FAMILY AND ABOLISH ALL EXISTING TAX AND DIRECT SUBSIDY PROGRAMS. IN THIS WAY WE WOULD HAVE A FEDERAL POLICY BASED ON A CORNERSTONE OF EQUAL ASSISTANCE TO EVERY AMERICAN.

OR, PERHAPS, WE SHOULD FOCUS OUR GREATEST RESOURCES ON THOSE MOST IN NEED AND STOP SUBSIDIZING THOSE LEAST IN NEED.

BUT WE SHOULD NOT PRETEND TO DISCUSS A REEVALUATION OF FEDERAL HOUSING POLICY THAT IGNORES MOST OF OUR FEDERAL HOUSING POLICY. IF WE CHOOSE TO DEAL WITH ONLY THE SMALLEST PART OF THE FEDERAL ROLE WHILE IGNORING THE GREATEST PART, WE ARE KIDDING OURSELVES IF WE BELIEVE SUCH DISCUSSIONS COULD HAVE ANY SUBSTANTIAL IMPACT.

CONCEPT PAPERS

HOUSING IS ONE OF THE TOP PRIORITIES OF THE OF THE NATIONAL LEAGUE OF CITIES AND WE WELCOME THIS OPPORTUNITY TO EXPRESS OUR COMMENTS ON THE CONCEPT PAPERS PREPARED BY YOUR STAFF. THE HOUSING CRISIS CONFRONTING AMERICA IS NATIONAL IN SCOPE AND--BECAUSE OF THE LACK OF FEDERAL SUPPORT OVER THE PAST EIGHT

YEARS-- REQUIRES A RETHINKING OF OUR HOUSING POLICY TO MORE ACCURATELY REFLECT A GROWING AND CHANGING NATIONAL NEED.

WHILE IT CAN BE STATED THAT THE MAJORITY OF AMERICAN FAMILIES ARE WELL HOUSED, IT IS EQUALLY TRUE THAT MANY SEGMENTS OF OUR POPULATION CONTINUE TO FACE DIFFICULTY IN SECURING DECENT, SAFE AND AFFORDABLE HOUSING. THE HOUSING CRISIS HAS FORCED MANY FAMILIES TO EITHER 1) PAYING A DISPROPORTIONATE AMOUNT OF THEIR LIMITED INCOME FOR SHELTER, WHILE LIVING IN PHYSICALLY INADEQUATE, SUBSTANDARD DWELLINGS OR 2) BEING FORCED--BECAUSE OF A LACK OF FINANCIAL RESOURCES--TO BECOME A PART OF THE EVER INCREASING HOMELESS POPULATION.

IN THE 1980S, AMERICA HAS ALL BUT ABANDONED THE IMPLICIT HOUSING POLICY IT HAD FOLLOWED FOR THE PREVIOUS 50 YEARS. THAT POLICY WAS A NATIONAL "ALL-INCOMES HOUSING POLICY." WE USED TO SUBSIDIZE HOUSING FOR CITIZENS AT EVERY--AND I EMPHASIZE THE WORD "EVERY"--INCOME LEVEL. NOW, WE ESSENTIALLY SUBSIDIZE HOUSING ONLY FOR MIDDLE-AND UPPER-INCOME HOUSEHOLDS, WHILE LEAVING THE REST OF OUR PEOPLE OUT IN THE COLD.

AMERICA TRULY HAS A HOUSING CRISIS AND OUR MEMBERS ARE ON THE FRONTLINE. IT IS WITHIN OUR CITIES AND TOWNS THAT THE HOMELESS--THE MAJORITY BEING SINGLE WOMEN WITH CHILDREN AND THE MENTALLY ILL--SEEK REFUGE. THE CRISIS NOW, ESPECIALLY FOR THESE YOUNG FAMILIES WITH CHILDREN, IS GRAVE. THE TIME BOMB OF EXPIRING COMMITMENTS OVER THE NEXT DECADE MEANS THAT, WITHOUT A RENEWED FEDERAL FINANCIAL COMMITMENT, THE CRISIS IS LIKELY TO FAR OUTSTRIP OUR VERY LIMITED AND DECREASING RESOURCE BASE.

IN ESSENCE, OVER THE PAST EIGHT YEARS THE FEDERAL GOVERNMENT HAS SYSTEMATICALLY ABANDONED ITS HOUSING PARTNERSHIP WITH THE

NATIONS' CITIES AND TOWNS. WHILE THE ACTUAL LEVEL OF FEDERAL SUBSIDIES FOR HOUSING HAVE INCREASED, THE LEVEL FOR THOSE IN NEED HAS BEEN CUT MORE SHARPLY THAN ANY OTHER AREA OF THE BUDGET. IN THE PAST EIGHT YEARS FEDERAL HOUSING POLICY HAS BEEN SET NOT BY THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, BUT BY THE FEDERAL TAX CODE. THAT POLICY HAS NOT BEEN SET CONSCIOUSLY, BUT RATHER UNCONSCIOUSLY AND UNFAIRLY.

UNLESS AND UNTIL ALL FEDERAL EXPENDITURES AFFECTING FEDERAL HOUSING POLICY ARE PUT ON ONE TABLE, WE WILL NOT BE ABLE TO HAVE A SERIOUS, CONSTRUCTIVE DISCUSSION. INSTEAD WE WILL DEAL WITH AN EVER DECLINING DIRECT COMMITMENT THAT BECOMES MORE AND MORE IRRELEVANT WHILE THE REAL DECISIONS ARE MADE ELSEWHERE.

THE HOUSING POLICIES OF THE CURRENT ADMINISTRATION AND THE LACK OF ADEQUATE APPROPRIATION IS DIRECTLY ATTRIBUTABLE TO THE INCREASED NUMBERS OF HOMELESS FAMILIES IN URBAN AND SUBURBAN COMMUNITIES ACROSS THE NATION. THE RECORD NUMBERS OF FAMILIES WHO MAKE UP THE HOMELESS POPULATION DRAMATICALLY DEMONSTRATES THE LACK OF AFFORDABLE RESIDENTIAL SHELTER AND PEOPLE LIVING ON THE ECONOMIC MARGINS OF OUR SOCIETY--LOWER INCOME FAMILIES, THE ELDERLY, THE WORKING POOR AND THE DEINSTITUTIONALIZED.

THE FINDINGS OF BOTH THE NATIONAL HOUSING TASK FORCE, CHAIRED BY JIM ROUSE AND THE NATIONAL LOW-INCOME HOUSING PRESERVATION COMMISSION HAS ENABLED US TO REALIZE THE DYNAMICS OF OUR PRESENT SITUATION WHICH BEGS FOR A FEDERAL SOLUTION. THE COMMISSION ESTIMATED THAT UP TO 1.4 MILLION PROJECT-BASED UNITS (OUT OF A TOTAL OF ALMOST 2 MILLION) COULD BE SHIFTED OUT OF THE SUBSIDIZED SUPPLY BY THE YEAR 2005 IF OWNERS EXERCISE THEIR PRIVILEGE TO PREPAY MORTGAGES OR OTHER OPT-OUT RIGHTS.

LOCAL GOVERNMENTS CANNOT HANDLE THIS PROBLEM ALONE. WE NEED THE RETURN OF OUR FEDERAL PARTNER AND YOUR CONCEPT PAPERS--ALONG WITH SOME OF THE OTHER LEGISLATIVE INITIATIVES BEING PROPOSED-- WILL LAY THE FOUNDATION FOR NEW DISCUSSIONS AND THE DEVELOPMENT OF NEW ACTION PLANS.

WHILE WE GENERALLY FEEL THAT THE CONCEPT PAPERS, PREPARED BY YOUR STAFF, ASSISTS IN THE EFFORTS OF PLACING THE ISSUE OF AFFORDABLE HOUSING AT THE TOP OF THE NATIONAL AGENDA, THERE ARE SEVERAL AREAS THAT WE WOULD LIKE TO HIGHLIGHT AS NEEDING FURTHER MODIFICATION IN ORDER TO ACHIEVE MAXIMUM RESULTS.

PRESERVATION

CLEARLY, ONE OF THE ISSUES THAT MUST BE ADDRESSED IN THE UPCOMING CONGRESS IS THAT OF PRESERVING THE LOW INCOME HOUSING STOCK. THE IMPORTANCE OF THIS ISSUE WAS OF PRIMARY CONCERN IN ALL OF THE REPORTS AND STUDIES CONDUCTED FOR YOUR COMMITTEE. IN FACT, YOUR OWN COMMITTEE FELT THE ISSUE WAS OF SUCH IMPORTANCE THAT YOU DEVOTED AN ENTIRE TITLE TO THIS SUBJECT IN THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1987 WHICH WAS SIGNED INTO LAW BY THE PRESIDENT LAST FEBRUARY.

CONFRONTED WITH THE POTENTIAL LOSS OF THIS HOUSING STOCK, WHICH IS LIKELY NOT ONLY TO CONTINUE BUT TO BECOME WORSE IN THE FORESEEABLE FUTURE, YOUR CONCEPT PAPERS--WHILE RAISING ALL OF THE KNOWN "CAUSES" OF THE PROBLEM--FAILS TO PROPOSE VIABLE, "PROGRAMMATIC SOLUTIONS" TO ABATE THIS SITUATION.

AN ESSENTIAL PART OF PRESERVING THIS PARTICULAR STOCK OF HOUSING IS PREDICATED ON THE ESTABLISHMENT OF FEDERAL REGULATIONS AND INCENTIVES TO OWNERS THAT WILL MAKE IT BENEFICIAL FOR THEM TO

MAINTAIN THEIR PROPERTY FOR LOW AND MODERATE INCOME USE. THIS SUBJECT--WHILE ADDRESSED FULLY IN THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1987--IS ONLY GENERALLY RAISED IN THE CONCEPT PAPER WITHOUT GIVING ANY SPECIFIC DETAILS ON A POTENTIAL PROGRAM TO FACILITATE THIS NEED.

THE PAPER STATES THAT "THE ACT WILL REAFFIRM THE GOAL OF "MODERNIZING THE NATION'S STOCK OF LOW-INCOME HOUSING," HOWEVER, IT FAILS TO PROVIDE ANY INSIGHT INTO THE POTENTIAL FUNDING LEVEL OR SOURCE TO CARRY OUT THIS OBJECTIVE. THERE IS A VALID REASON TO BE CONCERNED ABOUT FUNDING LEVELS GIVEN THE LACK OF FEDERAL ASSISTANCE IN THIS AREA OVER THE PAST EIGHT YEARS.

WE COMMEND THE CALL FOR AN OFFICE WITHIN HUD THAT WILL BE EXCLUSIVELY DEVOTED TO THE PRESERVATION ISSUE. HOWEVER, WE ARE UNSURE OF THE ACTUAL IMPACT THIS OFFICE WILL HAVE ON PRESERVING THE HOUSING STOCK AND THE CONCEPT PAPER PORTRAYS THIS OFFICE AS BEING MERELY AN ENTITY WITHIN HUD THAT WILL BE RESPONSIBLE FOR DATA COLLECTION AND PROVIDING TECHNICAL EXPERTISE.

THERE IS SERIOUSLY LACKING ANY DISCUSSION ON WHAT POSITIVE PROGRAMS THIS OFFICE WILL ATTEMPT TO IMPLEMENT TO ADDRESS THE PRESERVATION PROBLEM OR HOW THIS OFFICE WILL ATTEMPT TO ENFORCE THE EXISTING REQUIREMENTS AS OUTLINED IN THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1987. IN ESSENCE, THERE ARE NO CLEAR CUT PROGRAM GOALS AND OBJECTIVES PRESENTED IN THE PAPER THAT CAN BE USED TO MEASURE THE SUCCESS OR FAILURE OF OFFICE'S MISSION.

WE AGREE THAT THE PRESERVATION ISSUE MUST BE ADDRESSED THROUGH A JOINT FEDERAL, STATE AND LOCAL AND PRIVATE PARTNERSHIP. HOWEVER, THE PRIMARY RESPONSIBILITY, FOR FINANCIAL SUPPORT AND

ACTION, RESTS WITH THE FEDERAL GOVERNMENT. IN ADDITION, WE WOULD PREFER THAT THE CONCEPT PAPER BE MODIFIED TO ADDRESS A MORE "PROJECT-SPECIFIC" AGENDA AS OPPOSED TO THE GENERAL ONES BEING PRESENTED IN THIS DOCUMENT.

THE HOP PROGRAM

THE CONCEPT PAPERS CALL FOR THE ESTABLISHMENT OF A HOME CORPORATION WHICH WILL BE THE VEHICLE UNDERWHICH THE HOUSING OPPORTUNITY PARTNERSHIP (HOP) WILL OPERATE. THE CORPORATION, AS ENVISIONED IN THE CONCEPT PAPERS, APPEARS TO DUPLICATE ALREADY EXISTING CAPABILITIES AT FNMA AND FHLMC.

THE NEXT CONGRESS WILL BE CONFRONTED WITH THE SAME FISCAL AND BUDGETARY HANDICAPS AS THE 100TH CONGRESS. THE FEDERAL DEFICIT WILL PRESENT THE SAME CONSTRAINTS ON OVERALL FEDERAL SPENDING. THEREFORE, GIVEN THE LIMITED AMOUNT OF FEDERAL FUNDING THAT WILL BE AVAILABLE, IT APPEARS FOOLISH NOT TO TAKE ADVANTAGE OF THE MASSIVE INVESTMENT IN COMPUTER TECHNOLOGY AND STAFF SKILLS WHICH IS ALREADY IN PLACE AND WOULD BE DIFFICULT TO REPLICATE IN THE PUBLIC SECTOR.

WHILE THE PAPER STATES THAT THE HOME CORPORATION WILL BE LOCATED WITHIN HUD, VERY LITTLE DETAIL IS PROVIDED THAT FULLY EXPLAINS THE ORGANIZATIONAL MAKEUP AND STRUCTURE OF THIS ENTITY OUTSIDE OF THE FACT THAT THE CORPORATION'S PRESIDENT WILL BE APPOINTED BY THE PRESIDENT WITH THE ADVICE AND CONSENT OF THE SENATE.

IN ADDITION, IT IS STATED THAT FUNDING FOR THE CORPORATION "WILL BE PROVIDED IN APPROPRIATION ACTS," HOWEVER, GIVEN THE UNCERTAINTY OF THE APPROPRIATION PROCESS, AN "AUTHORIZED" FUNDING

LEVEL IS LEFT UNSPECIFIED.

WE WHOLEHEARTEDLY AGREE WITH MR. ROUSE, WHO GAVE TESTIMONY BEFORE YOU LAST WEEK, WHEN HE STATED THAT THE HOP PROGRAM IN YOUR CONCEPT PAPER HAS THE POTENTIAL OF CAUSING PROBLEMS FOR SOME LOCAL JURISDICTIONS. NOT ONLY WILL LOCAL GOVERNMENTS HAVE TO MASTER YET ANOTHER WAY OF DOING BUSINESS WITH THE FEDERAL GOVERNMENT AND WORK THEIR WAY THROUGH A COMPLICATED BUREAUCRACY, THEY WILL ALSO HAVE TO EXPEND THEIR LIMITED FINANCIAL RESOURCE TO TRAIN PERSONNEL. AFTER EXPENDING FUNDS TO LEARN THE NEW PROCESS, MANY SMALLER COMMUNITIES MAY STILL BE UNABLE TO PARTICIPATE IN THE PROGRAM BECAUSE OF THE "MATCHING CONTRIBUTION" REQUIREMENTS.

THE PAPER STATES THAT 80% OF THE FUNDS WOULD BE ALLOCATED BY FORMULA AND 20% BY NATIONAL COMPETITION. LOCAL GOVERNMENTS CAN ONLY COUNT ON RECEIVING 50% OF THE FORMULA ALLOCATED FUNDING BECAUSE THE OTHER 50% WILL GO DIRECTLY TO THE STATE. WE STRONGLY DISAGREE WITH THIS DISTRIBUTION OF THE FUNDS. THIS AGAIN CALLS INTO QUESTION THE ISSUE OF FUNDING LEVEL FOR THIS PROGRAM. LACK OF AN ADEQUATE APPROPRIATION LEVEL FOR THIS PROGRAM COULD DIRECTLY IMPACT ON ITS USEFULNESS. AGAIN, THE BOTTOM-LINE RESTS WITH THE APPROPRIATIONS PROCESS AND THE CONCEPT PAPER IS SILENT ON THE SUBJECT OF FUNDING LEVELS.

THE GREATER MAJORITY OF HOUSING ACTIVITY HAS TAKEN PLACE AT THE LOCAL LEVEL OF GOVERNMENT--BETWEEN CITY GOVERNMENTS AND LOCAL NON-PROFIT ORGANIZATIONS. VERY FEW STATES HAVE TAKEN A DIRECT INTEREST IN PROVIDING HOUSING, YET, UNDER THIS PROGRAM THEY WILL BE RECEIVING 50% OF THE DIRECT ENTITLEMENT FUNDING. IF THE STATE DECIDES NOT TO PARTICIPATE IN THE PROGRAM, THE LOCAL JURISDICTION IS ONLY ELIGIBLE FOR HALF OF THE STATE'S SHARE WITH THE BALANCE BEING REALLOCATED TO OTHER STATE PARTICIPANTS. WE QUESTION THE

RATIONALE BEHIND THIS PROCEDURE.

GIVEN THE FACT THAT 20% OF THE FUNDS WOULD BE ALLOCATED BY NATIONAL COMPETITION, SMALLER COMMUNITIES--WITH LIMITED RESOURCES AND EXPERTISE--WILL BE FORCED INTO UNFAIR COMPETITION WITH THOSE COMMUNITIES WHO CAN AFFORD TO HIRE EXPERIENCED GRANTSMEN AND PROGRAM DEVELOPERS.

THE HOP PROGRAM, AS DETAILED IN THE ROUSE STUDY, PROVIDED LOCAL GOVERNMENTS WITH THE TYPE OF UNENCUMBERED FLEXIBILITY NECESSARY TO SPECIFICALLY TAILOR PROGRAM ACTIVITY TO LOCAL NEEDS. WE PROPOSE THAT THE STAFF LOOK A LITTLE MORE CLOSELY AT THE TASK FORCE STUDY AND ATTEMPT TO ENGENDER MORE OF THEIR RECOMMENDATIONS OR CONSIDER DEVELOPING A HOUSING BLOCK GRANT--WHICH IS BEING PROPOSED BY SENATOR D'AMATO AND SENATOR DODD. WHILE THE D'AMATO/DODD LEGISLATION WILL NEED SOME SUBSTANTIAL REVISIONS, IT APPEARS TO BE ALSO GOING IN THE RIGHT DIRECTION.

AGAIN, WE ARE CONCERNED THAT THE CONCEPT PAPER GIVES VERY LITTLE DETAIL ON THE LEVEL OF FUNDING WHICH WOULD APPEAR TO BE KEY TO CARRYING OUT THIS PROGRAM. IN FACT, THE PAPER APPEARS TO GO THROUGH A GREAT DEAL OF PAIN TO DELETE FUNDING LEVELS, PERCENTAGE OF MATCH REQUIREMENTS AND PERCENT OF MEDIAN PURCHASE PRICE UNDER THE HOMEOWNERSHIP PROVISIONS.

KEY TO THE ABILITY OF DEVELOPING AN AFFORDABLE HOUSING STRATEGY IS BASED UPON THE RENEWED COMMITMENT AND FUNDING FROM THE FEDERAL GOVERNMENT. THE FEDERAL GOVERNMENT MUST SHAPE THE NATIONAL HOUSING AGENDA AND BE WILLING TO PROVIDE ADEQUATE FUNDS TO DO THE JOB.

LOW INCOME RENTAL ASSISTANCE

Senator CRANSTON. Thank you.

Of the new offices, one concept that we have had is the one-stop office, where you could get all of the answers that you need on the program without having to go to several offices.

Another problem is that we believe the agency needs some reinvigoration after 8 years of stagnation, and maybe a new office is the way to do that the most swiftly without having to move a lot of people out or around to provide the focal point.

We will be struggling to find the proper balance of roles for the Federal, State, and local governments in housing. I would like to ask you one question about that.

How do we assure moderate sized cities a strong role? How should coordination between State and local governments be assured?

Mr. LATIMER. Mr. Chairman, I think we have had some experience with the community development block grant programs that we can draw from.

I haven't really prepared for these answers, but let me suggest this, that where the local communities of any size have demonstrated the ability to deal with it directly—I have heard from rural midwestern communities like last night that many of them feel capable of proceeding and that they should be included in a direct grant way, and therefore the division to many States, the division proposed, 50 percent going to the State would perhaps be an unduly cumbersome way of getting to the communities which are increasingly able to deal with the issue directly.

Senator CRANSTON. George, thank you very much. I am glad that you managed to get here before we were finished.

We are going to have another hearing tomorrow at 9:30, the same time, same place, on the housing measure we are considering.

I thank each and all of you for your presence and your very helpful contributions to us.

We now stand in recess.

[Whereupon, at 11:49 a.m., the subcommittee was recessed, to reconvene at 9:30 a.m., Thursday, September 22, 1988.]

NATIONAL AFFORDABLE HOUSING ACT

THURSDAY, SEPTEMBER 22, 1988

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 9:34 a.m. in room SD-538 of the Dirksen Senate Office Building, Senator Alan Cranston (chairman of the subcommittee) presiding.

Present: Senators Cranston, Riegle, D'Amato, and Chafee.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. Good morning. The committee will come to order. I welcome everyone here.

We are continuing a series of four hearings that will help the Housing Subcommittee draft the National Affordable Housing Act.

I assumed the leadership of the Housing Subcommittee at the beginning of this Congress with the strong conviction that the times called for a reinvigorated national housing policy. Senator Al D'Amato has shared that conviction from the beginning.

So, together we sent out a broad invitation for others to join us in shaping a new housing policy: One that can help the country meet its urgent need for decent, affordable housing for the next decade.

I have been exhilarated by the enthusiastic response to our invitation that has come from virtually every region of the country and every group that cares about affordable housing. The response has far exceeded my own optimistic expectations.

Thoughtful recommendations have come from hundreds of people. The National Housing Task Force and the MIT Housing Policy Project made an outstanding contribution. Many housing leaders have spent countless hours in detailed discussions on elements of the new national housing policy. We have benefited from the best thinking of housing experts from around the country.

The current challenge is to refine those ideas in specific legislation that can build the most effective national support for housing, that reflects the broadest possible consensus about what the country should do about housing and that has the best chance of being enacted and brought to reality.

Senator D'Amato and I intend to meet with the new President-elect shortly after election day to give him the draft legislation. We intend to work with the new transition team and with other Members of Congress on a bipartisan basis to develop a major new housing bill that can move very quickly next year.

Staff concept papers were developed as a preliminary step in the drafting of the National Affordable Housing Act. They have been widely distributed so that many individuals and organizations can participate in shaping the legislation.

I greatly appreciate the fact that these concept papers are receiving thoughtful analysis. Many valuable recommendations have already been received. I assure you they will affect drafting of the new legislation.

Many ideas in the concept papers will be refined. Some will be reformulated. We will need the continuing assistance of all those who care about the future of housing in our country.

I feel very strongly that as refinements are made, the new housing bill must continue to address several vital issues:

First, the new bill should be designed to provide the most housing over the long haul for those who desperately need it. We cannot assume that some given level of funding will be provided for housing. Money will have to be won in tough legislative struggles. We must get the most housing for the longest period of time for each Federal dollar. The policy must build strong support around the country.

Second, the new bill should be designed so that Federal housing assistance is unmistakably a long-term commitment and investment in affordable housing as a long-term national asset.

We of course want to provide flexible housing assistance through States and localities.

However, I am very concerned that some powerful groups have long advocated housing block grants as a conditional device to accelerate the final Federal retreat from housing. That pressure will be felt for years to come. A new housing bill should be designed to provide a sound defense against it.

Third, we must recognize that it will not be enough to give States and localities responsibilities for designing and implementing housing programs. We also have to give them the tools to do the job. We have to make sure that when the States and localities deal with HUD, they find an agency that can deliver the needed assistance and an agency that has a strong incentive to help the State and local housing strategies succeed.

Fourth, the new bill should encourage the development of diverse partnerships among government, nonprofit organizations, and private industry around the country, particularly where they are not now strong.

Fifth, the new bill should be designed so that it can be effective at relatively low levels of funding. Budgetary pressures may, despite our best efforts, make that necessary in the early years, and they probably will, but the bill must be designed to accommodate significant increases in funding as our budgetary outlook improves.

Sixth, the new policy must be designed to take into account the great disparity among States and localities. It must provide early assistance to those jurisdictions that are committed to housing and skilled in housing assistance, but make room for those jurisdictions that will need a lot of time and assistance before they can take on a larger role in housing.

I am certain we are able to develop a bill that will meet these tests. We will achieve it if we work together, as we must.

Our witnesses this morning represent the kind of practical achievement that will turn our hope for better housing into reality.

Each of you has become nationally known for your thoughtfulness and commitment to housing. We are honored to have you here. I will be looking forward to your testimony.

Many organizations, let me add, have asked to testify in these hearings. Since we have tried to accommodate as many as possible, we have a very full schedule. I ask each of you to summarize your testimony within 5 minutes so that we will have sufficient time for questions. And just to help you, there will be a red light go on here when your 5 minutes are up.

Thank you very, very much.

[The prepared statement of Senator Cranston follows:]

September 22, 1988

OPENING STATEMENT OF SENATOR ALAN CRANSTON
HEARING ON THE NATIONAL AFFORDABLE HOUSING ACT

I welcome everyone here this morning. We are continuing a series of four hearings that will help the Housing Subcommittee draft the National Affordable Housing Act.

I assumed leadership of the Senate Housing Subcommittee at the beginning of this Congress with a strong conviction that the times call for a reinvigorated national housing policy. Senator Al D'Amato has shared that conviction from the beginning. And so, together, we sent out a broad invitation for others to join us in shaping a new national housing policy -- one that can help the country meet its urgent need for decent, affordable housing for the next decade.

I have been exhilarated by the enthusiastic response to our invitation that has come from virtually every region of the country and every group that cares about affordable housing. The response has far exceeded my own optimistic expectations.

Thoughtful recommendations have come from hundreds of people. The National Housing Task Force and the MIT

Housing Policy Project made an outstanding contribution. Many housing leaders have spent countless hours in detailed discussions on elements of a new national housing policy. We have benefitted from the best thinking of housing experts from around the country.

The current challenge is to refine those ideas into specific legislation that can build the most effective national support for housing, that reflects the broadest possible consensus about what the country should do about housing and that has the best chance of being enacted and brought to reality.

Senator D'Amato and I intend to meet with the new President-elect shortly after election day to give him the draft legislation. We intend to work with the new transition team and with other members of Congress on a bipartisan basis to develop a major new housing bill that can move very quickly next year.

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I greatly appreciate the fact that these concept papers are receiving thoughtful analysis. Many valuable recommendations have already been received.

I assure you they will affect drafting of the new legislation.

Many ideas in the concept papers will be refined. Some will be reformulated. We will need the continuing assistance of all those who care about the future of housing in our country.

I feel very strongly that, as refinements are made, the new housing bill must continue to address several vital issues.

First, the new bill should be designed to provide the most housing over the long haul for those who desperately need it. We can not assume that some given level of funding will be provided for housing. Funding will have to be won in a series of very tough budgetary struggles. Therefore, a new housing policy must get the most housing for the longest period of time for each federal dollar -- and the policy must build broad support around the country.

Second, the new bill should be designed so that federal housing assistance is unmistakably a long term commitment -- an investment in affordable housing as a long term national asset. We, of course, want to provide flexible housing assistance through states and localities. However, I am very concerned that some powerful groups have long advocated housing block grants as a transitional device to accelerate a final federal retreat from

housing. That pressure will be felt for years to come, and a new housing bill should be designed to provide a sound defense against it.

Third, the new bill should be designed for success. It will not be enough to give states and localities responsibility for designing and implementing housing programs. We also have to give them the tools to do the job. We have to make sure that when states and localities deal with HUD, they find an agency that can deliver the needed assistance, and an agency that has a strong incentive to help the state and local housing strategies succeed.

Fourth, the new bill should encourage the development of vigorous partnerships among government, non-profit organizations and private industry around the country -- particularly where they are not now strong.

Fifth, the new bill should be designed so that it can be effective at relatively low levels of funding, if budgetary pressures -- despite our best efforts -- make that necessary in the early years. But the bill must be designed to accommodate significant increases in funding as the budgetary outlook improves.

Sixth, the new policy must be designed to take into account the great disparity among states and localities. It must provide early assistance to those jurisdictions that are committed to housing and skilled in housing assistance. But it must make room

AS PROPOSED, THE RENTAL ASSISTANCE PROGRAM DOES NOT CHALLENGE ANY OF THE BASIC PREMISES OF THE SECTION 8 AND VOUCHER PROGRAMS. WE ENCOURAGE YOU TO CONSIDER THAT RENTAL ASSISTANCE BE THOUGHT OF IN TWO CATEGORIES:

1. LONG TERM RENTAL ASSISTANCE FOR THOSE WHO ARE INCAPABLE OR UNLIKELY TO INCREASE THEIR INCOME AND LEVEL OF SELF SUFFICIENCY.
2. TRANSITIONAL RENTAL ASSISTANCE FOR THOSE WHO ARE CAPABLE OF INCREASING THEIR INCOME AND LEVEL OF SELF SUFFICIENCY.

THIS IS REALLY THE SAME UNDERLYING PHILOSOPHY EMPLOYED IN DISCUSSING WELFARE REFORM PROGRAMS.

TRANSITIONAL RENTAL ASSISTANCE COULD BE DESIGNED TO TAPER OFF AS RECIPIENTS BECOME EMPLOYED. TO ALLOW THIS, THE SUGGESTED 30% OF MEDIAN INCOME AS TENANT CONTRIBUTION MUST BE A MORE FLEXIBLE STANDARD. SIMILARLY, THE 50% OF MEDIAN INCOME LIMITATION ON ELIGIBILITY MAY BE TOO STRINGENT FOR THOSE IN THE LAST YEAR OR TWO OF THEIR TRANSITION.

THE BASIC ADMINISTRATIVE FEES FOR TIGHT RENTAL MARKETS SEEM LIKE A GOOD IDEA, HOWEVER, THE PENALTIES FOR MOVE-OUTS ARE PUNITIVE AND BUREAUCRATIC. IN ADDITION, TIES TO WELFARE REFORM SHOULD BE INHERENT IN THE RENTAL ASSISTANCE PROGRAM RATHER THAN BEING TREATED AS AN ADJUNCT.

--TAX CODE REVISION

TO COMPLEMENT THE NEW PRODUCTION PROGRAM AND ENCOURAGE PRIVATE SECTOR PARTICIPATION IN THE PROVISION OF MIXED INCOME

HOUSING, THE TAX CODE SHOULD BE AMENDED BY:

1. DEFINING AS "GOVERNMENTAL" TAX-EXEMPT BONDS ISSUED TO FINANCE RENTAL HOUSING MEETING CURRENT LAW TARGETING REQUIREMENTS (20 PERCENT OF UNITS AT 50 PERCENT OF MEDIAN OR 40 PERCENT OF THE UNITS AT 60 PERCENT OF MEDIAN WITH REVISED PROGRAM LIMITS FOR AREAS WITH HIGH BUILDING COSTS AND LOW MEDIAN INCOME);
2. REMOVING THE PENALTY WHICH REDUCES THE VALUE OF THE LOW INCOME HOUSING TAX CREDIT FROM 9 PERCENT TO 4 PERCENT WHEN BOND FINANCING OR FEDERAL ASSISTANCE IS USED;
3. RELAXING THE PASSIVE INVESTMENT LOSS RULES FOR PROJECTS MEETING CURRENT LAW TARGETING REQUIREMENTS; AND,
4. PROVIDING A MORE FAVORABLE DEPRECIATION SCHEDULE FOR PROJECTS MEETING CURRENT LAW TARGETING REQUIREMENTS.

SPECIAL NEEDS -- SUPPORTIVE HOUSING

--ASSISTANT SECRETARY FOR SUPPORTIVE HOUSING

THE NATIONAL LEAGUE OF CITIES HAS HAD A LONG HISTORY WITH HUD. WHILE WE COMMEND THE CONCEPT PAPERS FOR RAISING THE POSSIBILITY OF CREATING AN INDIVIDUAL WITH RESPONSIBILITY FOR THE ELDERLY, HANDICAP AND HOMELESS, THE ESTABLISHMENT OF YET ANOTHER ASSISTANT SECRETARY--IN ADDITION TO THE EIGHT (8) CURRENTLY AUTHORIZED--COULD PRESENT A PROBLEM. ESPECIALLY IF THE ROLE AND AUTHORITY OF THIS INDIVIDUAL IS NOT CLEARLY DEFINED.

WE FEEL THAT THE CATEGORIES PRESENTED IN THE CONCEPT PAPERS THAT WILL BE THE RESPONSIBILITY OF THIS INDIVIDUAL ARE EXCELLENT,

HOWEVER, IT SHOULD BE UNDERSTOOD THAT CURRENTLY THESE AREAS CUT ACROSS BOTH SIDES OF HUD-- HOUSING AND COMMUNITY DEVELOPMENT (CPD).

IN ORDER FOR THIS PERSON TO BE EFFECTIVE, THERE WOULD HAVE TO BE A RESTRUCTURING OF THE ORGANIZATION AT HUD INVOLVING BOTH PROFESSIONALS AND SUPPORT STAFF. THE CONCEPT PAPER NEEDS TO BE SENSITIVE TO THE SCHISMS THAT HAVE HISTORICALLY EXISTED BETWEEN THESE TWO BRANCHES OF HUD. THE AUTHORITY AND RESPONSIBILITY OF THE PROPOSED NEW ASSISTANT SECRETARY FOR SUPPORTIVE HOUSING WILL HAVE DIFFERENTIATED FROM THE OTHER ASSISTANT SECRETARY'S. FAILURE TO TARGET IN ON THESE IMPORTANT DISTINCTIONS WILL ULTIMATELY CREATE A BUREAUCRATIC PROBLEM THAT WILL CAUSE PROGRAM OBJECTIVES TO EITHER BE DELAYED OR NOT DELIVERED.

THE IDEA OF HAVING AN ASSISTANT SECRETARY SPECIFICALLY DEVOTED TO SUPPORTIVE HOUSING IS A GOOD IDEA--CONCEPTUALLY. HOW THIS INDIVIDUAL ACTUALLY FITS WITHIN THE--SOMETIMES DIVERSE-- INTERESTS AT HUD AND OTHER AGENCIES NEEDS TO BE FURTHER EXPLORED AND THEN MORE FULLY EXPLAINED.

--HOMELESS ASSISTANCE

AS MENTIONED EARLIER, THE HOMELESS CRISIS CONFRONTING THE NATION MUST BE IMMEDIATELY ADDRESSED. THE CONCEPT PAPERS ARE MOVING IN THE RIGHT DIRECTION BY RECOMMENDING THAT FEDERAL FUNDING BE ALLOCATED THROUGH A COMPREHENSIVE FORMULA GRANT WHICH WILL GIVE LOCAL GOVERNMENTS MAXIMUM FLEXIBILITY IN THE USE OF THE FUNDS FOR ELIGIBLE ACTIVITIES.

THE NATIONAL LEAGUE OF CITIES IS IN TOTAL FAVOR OF ANY MECHANISM THAT WILL PROVIDE THIS FLEXIBILITY, HOWEVER, MAXIMUM

FLEXIBILITY ALONG WITH ADEQUATE FUNDING IS KEY TO THE SUCCESS OR FAILURE OF THE LOCAL EFFORT. THE HISTORY OF THE MCKINNEY ACT HAS BEEN ONE OF HIGH AUTHORIZATION LEVELS AND LOW APPROPRIATIONS. TO DEVELOP A BLOCK GRANT INFERS THAT THERE WILL BE ENOUGH MONEY TO SPREAD AROUND. THE CONCEPT PAPERS FAIL TO ADDRESS THE ISSUE OF FUNDING WHICH IS CRITICAL TO PROVIDING ADEQUATE HOMELESS ASSISTANCE.

IN CONCLUSION MR. CHAIRMAN: BOTH YOU AND SENATOR D'AMATO SHOULD BE CONGRATULATED FOR YOUR LEADERSHIP IN PLACING THE ISSUE OF HOUSING ON THE NATIONAL AGENDA. THE EFFORTS OF YOUR STAFF IN PUTTING TOGETHER A DOCUMENT THAT ENABLES US TO BEGIN SERIOUS DISCUSSION ON THIS SUBJECT, IS COMMENDABLE.

WHILE THERE ARE SEVERAL AREAS IN THE CONCEPT PAPERS THAT WILL NEED MORE FINE TUNING, THE PAPERS REPRESENT THE FOUNDATION FOR A SERIOUS DISCUSSION ON HOUSING. UNFORTUNATELY, SOME OF THE BEST IDEAS THAT ARE BEING PUT FORWARD WILL FAIL WITHOUT THE FULL COMMITMENT ON THE PART OF THE FEDERAL GOVERNMENT--NOT ONLY FOR THE CONCEPT, BUT THROUGH REALISTIC FINANCIAL SUPPORT-- THAT ASSURES THE DEVELOPMENT OF THESE CONCEPTS INTO MEANINGFUL LEGISLATION THAT CAN BE PASSED BY THE CONGRESS.

THANK YOU AGAIN, FOR GIVING US THIS OPPORTUNITY TO EXPRESS OUR OPINIONS ON THESE CONCEPT PAPERS AND I STAND READY TO ANSWER ANY QUESTIONS THAT YOU MIGHT HAVE.

for those jurisdictions that will need a lot of time and assistance before they can take on a large role in housing.

I am certain that we are able to develop a bill that meets those tests -- a realistic bill that can make a real improvement in housing for all Americans. We will achieve it if we work together.

Our witnesses this morning represent the kind of practical achievement that will turn our hopes for better housing into reality. Each of you have become nationally known for your thoughtfulness and commitment to housing. We are honored to have you here.

I have been looking forward to your testimony.

Many organizations have asked to testify in these hearings. Since we've tried to accommodate as many as possible, we have a very full schedule. I ask each of you to summarize your testimony within five minutes so that we will have sufficient time for questions.

Senator CRANSTON. Our first witness now is Daniel J. Wuenschel, executive director, Cambridge Housing Authority, representing the Council of Large Public Housing Authorities.

Before that, Senator D'Amato may have some words of wisdom. Again, I want to express my thanks for his partnership in this effort.

OPENING STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. Mr. Chairman, let me commend you for the task force for these hearings and for giving me the opportunity to participate with you as a partner in this endeavor. And it is not an easy one. Without your dedication and that of the staff to this effort, and in involving the entire housing community, the developers, the users, those who cover the waterfront, so to speak, we certainly would not have come to the point where we have or where I think we will be in a position to advocate long-overdue, necessary legislation to meet a growing crisis.

And there is a growing crisis out there in America, not only as it relates to the poor of America, working poor, but also to groups that heretofore we had always thought had the means and the ability to take care of themselves. I am talking about professionals, young professional families, where they no longer have the opportunity of homeownership and who face the exacerbated rental market system.

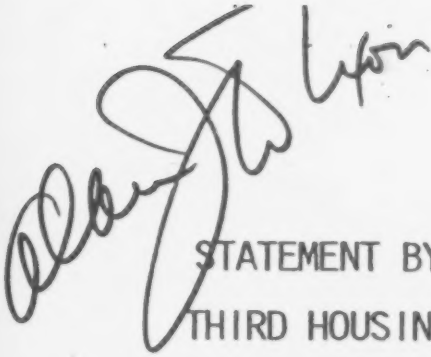
I am talking about the one million tenants who are middle income, who will face the prospects of having no alternative housing once the 20-year lease program that many of them are in—the buildings that they are in—come to an end. And we have no solution in sight, again, further exacerbating the problem.

I am very much interested in hearing the witnesses and their expertise, bringing their unique understanding to these problems, and I commend you, Mr. Chairman, for your thoroughness and for your perspicacity.

I will ask that my full statement be placed in the record as if read in its entirety.

Senator CRANSTON. It will be. I also have statements of Senators Dixon and Sasser.

[The prepared statements of Senators Dixon, Sasser, D'Amato, and Chafee follow:]

A large, stylized handwritten signature in black ink, likely belonging to Alan J. Dixon, is positioned to the left of the title text.

STATEMENT BY SENATOR ALAN J. DIXON
THIRD HOUSING SUBCOMMITTEE HEARING
ON THE STAFF CONCEPT PAPERS FOR A
NATIONAL AFFORDABLE HOUSING ACT

SEPTEMBER 22, 1988

MR. CHAIRMAN, AS WE BEGIN
THIS THIRD OF A SERIES OF HEARINGS
ON THE STAFF CONCEPT PAPERS FOR THE
DEVELOPMENT OF A NATIONAL AFFORDABLE
HOUSING ACT, I WANT TO AGAIN THANK
SENATORS CRANSTON AND D'AMATO FOR
THEIR COMMITMENT AND DILIGENCE IN
SETTING A NATIONAL HOUSING POLICY
AGENDA.

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IT IS TIME FOR CONGRESS TO
PUT THE ISSUE OF AFFORDABLE AND
AVAILABLE HOUSING BACK ON OUR
LEGISLATIVE PRIORITY AGENDA.

MR. CHAIRMAN, ACCORDING TO A
RECENTLY RELEASED DOCUMENT FROM THE
NATIONAL COALITION FOR THE HOMELESS,
THE FASTEST GROWING GROUP IN OUR
HOMELESS POPULATION IS NOW FAMILIES
WITH CHILDREN. THIS HIGHLIGHTS OUR
CRITICAL HOUSING PROBLEM, WHICH HAS
BECOME A NATIONAL DISGRACE.

THE STAFF CONCEPT PAPERS
PROPOSE SOME SOLUTIONS TO THE HOUS-
ING PROBLEM. HOPEFULLY, THE LEGIS-
LATIVE PROPOSAL WHICH IS EXPECTED TO

BE INTRODUCED IN JANUARY 1989, WILL RESULT IN AN ADEQUATE SUPPLY OF AFFORDABLE HOUSING FOR LOW- AND MODERATE-INCOME FAMILIES, PERMIT DOWNPAYMENT ALTERNATIVES TO FIRST-TIME HOME BUYERS, AND ERADICATE THE HOMELESS PROBLEM.

WE HAVE HEARD TESTIMONY WHICH ESSENTIALLY SUPPORTS THE CONCEPTS OUTLINED IN THE STAFF PAPERS. WE HAVE HEARD SUPPORT TO EXTEND THE MORTGAGE REVENUE BOND PROGRAM; TO LOWER THE FHA DOWNPAYMENT REQUIREMENT; TO REPLACE VOUCHERS AND CERTIFICATES WITH RENT CREDITS FOR LOW-

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INCOME RENTAL ASSISTANCE; TO ALLOW FIRST-TIME HOME BUYERS TO USE FUNDS FROM IRAs OR 401(K) RETIREMENT PLANS FOR A DOWNPAYMENT ON A HOME; AND ~~MANY~~ OTHER PROPOSALS.

MR. CHAIRMAN, I WILL HAVE OTHER RECOMMENDATIONS FOR THE SUBCOMMITTEE. HOWEVER, AT THIS TIME, I SUGGEST THAT WE ADD TO THE AGENDA A PROPOSAL TO ASSURE THAT HUD DEVELOPS A BETTER MEANS OF HANDLING ITS ABANDONED HOMES.

WITH THESE AND OTHER PROPOSALS, I BELIEVE THAT THE HOUSING SUBCOMMITTEE CAN SOON DEVELOP A COMPROMISE BILL WHICH WE

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CAN ALL SUPPORT AND PRESENT TO THE
NEW ADMINISTRATION IN JANUARY 1989.

STATEMENT OF SENATOR JIM SASSER, SENATE HOUSING SUBCOMMITTEE,
SEPTEMBER 22, 1988

MR. CHAIRMAN, TODAY IS THE THIRD DAY OF HEARINGS ON THE
CONCEPT PAPERS FOR A NATIONAL AFFORDABLE HOUSING ACT. TODAY WE
WILL HEAR FROM PUBLIC HOUSING, LOW INCOME RENTAL HOUSING AND
NEIGHBORHOOD REHABILITATION ADVOCATES.

MR. CHAIRMAN, AS YOU KNOW THERE IS A VERY INTERESTING AND
DYNAMIC EXPERIMENT IN NEIGHBORHOOD REHABILITATION GOING ON IN THE
CITY OF CHATTANOOGA IN MY HOME STATE OF TENNESSEE. CHATTANOOGA
HAS SET A GOAL OF MAKING ALL THE HOUSING UNITS IN THE CITY FIT
AND HABITABLE IN TEN YEARS. THIS INVOLVES THE REHABILITATION AND
CONSTRUCTION OF SOME 14,000 UNITS.

MR. CHAIRMAN, I HAVE SEEN THIS PROGRAM IN OPERATION AND IT
IS TRULY IMPRESSIVE. THE LEVEL OF COMMUNITY SUPPORT IS VERY
BROAD. LOCAL BUSINESS, GOVERNMENT, NEIGHBORHOOD GROUPS,

CHARITABLE ORGANIZATIONS AND THE PEOPLE THEMSELVES ARE PARTICIPATING IN, INDEED THEY ARE EXCITED ABOUT, THIS PROGRAM.

CHATTANOOGA NEIGHBORHOOD ENTERPRIZE -- AS THE PROGRAM IS CALLED -- HAS BECOME AN ECONOMIC DEVELOPMENT PROGRAM. IT IS PERCEIVED AS A VEHICLE FOR ATTRACTING NEW BUSINESS TO CHATTANOOGA. IT IS ALSO A JOB TRAINING PROGRAM.

I THINK THAT THE CHATTANOOGA TYPE PROGRAM IS A MODEL THAT CAN BE USED TO PROMOTE DECENT HOUSING NATIONWIDE. THE PUBLIC PRIVATE PARTNERSHIP CONCEPT ENSURES THAT THERE IS A GREAT DEAL OF INPUT ON THE LOCAL LEVEL. FEDERAL MONEY IS LEVERAGED WITH LOCAL GOVERNMENTAL AND PRIVATE FUNDS. IT APPEARS TO ME TO BE A VERY EFFICIENT USE OF FEDERAL FUNDS.

MR. CHAIRMAN, I LOOK FORWARD TO TODAY'S TESTIMONY. THANK YOU.

STATEMENT OF SENATOR D'AMATO
NATIONAL AFFORDABLE HOUSING ACT
SEPTEMBER 22, 1988

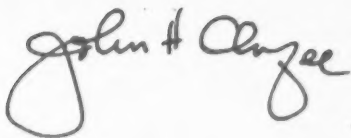
MR. CHAIRMAN, I AM PLEASED TO JOIN YOU AS WE EMBARK ON THE THIRD IN A SERIES OF FOUR HEARINGS ON VARIOUS APPROACHES, EMBODIED IN "CONCEPT PAPERS," TO THE NATIONAL AFFORDABLE HOUSING ACT. OUR FIRST HEARING PROVIDED US WITH HELPFUL INSIGHT INTO THE BROAD USES OF IRA FUNDS AND THE FHA PROGRAM TO STIMULATE HOMEOWNERSHIP OPPORTUNITIES. OUR SECOND HEARING FOCUSED ON THE ROLE OF STATE AND LOCAL GOVERNMENTS IN MEETING THIS NATION'S HOUSING NEEDS. THIS HEARING WILL TOUCH ON A VARIETY OF SUBJECTS AFFECTING THE PRODUCTION AND PRESERVATION OF HOUSING.

ONE OF THE KEY GOALS OF THE NATIONAL AFFORDABLE HOUSING ACT WILL BE TO MAXIMIZE POTENTIAL OF NOT-FOR-PROFIT ORGANIZATIONS. THESE ORGANIZATIONS HAVE AN EXEMPLARY COMMITMENT TO HOUSING LOW- AND MODERATE-INCOME FAMILIES. ONE SUCH ORGANIZATION IS REPRESENTED HERE TODAY -- THE LOCAL INITIATIVES SUPPORT CORPORATION (LISC), HEADED BY PAUL GROGAN. THIS ORGANIZATION, WHICH IS HEADQUARTERED IN NEW YORK CITY, IS INSTRUMENTAL IN FACILITATING INNOVATIVE APPROACHES TO MEETING LOCAL HOUSING PROBLEMS. MR. GROGAN WAS A MEMBER OF THE NATIONAL HOUSING TASK FORCE. I HAVE APPRECIATED HIS INVOLVEMENT IS HELPING US CONFRONT THIS

NATION'S HOUSING PROBLEMS AND I AM PLEASED TO HAVE HIM HERE TODAY.

I LOOK FORWARD TO WORKING WITH ALL OF THE INDIVIDUALS HERE TODAY AS WE RESOLVE A NUMBER OF THE REMAINING UNANSWERED QUESTIONS AND AS WE RECOGNIZE REFORMS THAT WILL FACILITATE THE GOAL THAT WE ARE ALL AIMING TO ACHIEVE -- TO INSURE THAT ALL AMERICANS ARE PROVIDE SAFE AND AFFORDABLE HOUSING.

THANK YOU, MR. CHAIRMAN.



STATEMENT BY

SENATOR JOHN H. CHAFEE

IN THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

HEARINGS ON THE NATIONAL AFFORDABLE HOUSING ACT

September 22, 1988

With today's hearings we continue the process of examining the staff concept papers for a new National Affordable Housing Act. The key questions we must consider: who is in need of what type of housing services, and how are we best to deliver those services? And so it is fitting that today we have represented here the organizations most experienced and most successful in delivering housing services to those in need.

The needs we must address are complex, varied, and, in all cases, pressing. We are experiencing shortages in the type as well as the quantity of low-cost rental housing. In my home state, for example, we have a tremendous need for supportive housing for the elderly. We have a demonstration project under the Congregate Housing Services Program in operation at Morin Heights in Woonsocket which has been successful in averting premature institutionalization -- but it is, after all, only a demonstration

project. It could be replicated to good effect throughout the state.

There also is a distinct need for "very-low" income rental housing -- that is, housing for those with incomes below 50 percent of median. It is estimated that in Rhode Island, the number of very-low income households exceeds the number of very-low income units by 106 percent.

Of continuing concern, of course, is the imminent expiration of federal subsidies and rent restrictions. As a result of the notice requirements in the 1987 housing bill, several owners in my state have announced their intent not to renew their Section 8 contracts at the expiration date. The preservation of the existing stock of affordable housing is an area that will need our constant attention throughout the coming months, and will require a high degree of cooperation among all of us that are concerned.

In closing, I would like to thank Senators Cranston and D'Amato for their leadership on this issue. You have brought these issues to the forefront of attention -- where they need to be if we are to make meaningful progress toward meeting our challenges in housing.

Senator CRANSTON. I would like to ask Mr. Grady to go first because he has to catch a plane.

He is chairman of the National Advisory Council of HUD Managing Agents.

STATEMENT OF DANIEL B. GRADY, CHAIRMAN, NATIONAL ADVISORY COUNCIL OF HUD MANAGING AGENTS, SAN DIEGO, CA

Mr. GRADY. Thank you, Mr. Chairman.

I want to thank you, Senator, and Senator D'Amato, for giving me the opportunity to appear before you today, and I commend you for holding these hearings to discuss the staff concept papers.

We recognize that a great deal of effort and goodwill is needed to translate these concept papers into effective legislation. Implementation of the legislation and development of workable programs will also require the full cooperation of the new administration. The Council hopes that the executive and the legislative branches do reach agreement on the goals of the National Affordable Housing Act. Working together they will then be able to find methods to allocate the necessary resources to reach those goals.

We will confine our comments to the concept papers which deal primarily with rental housing, with special emphasis on management.

We support the creation within HUD of three new "hot spots" or distinct centers of new activity:

- First, housing preservation;
- Second, HOME Corporation; and
- Third, supportive housing.

We do believe, however, that these activities should report to the assistant secretary of Housing/FHA Commissioner, who would be responsible for all housing activities of the department.

We recommend that public housing also be brought within his area of responsibility. It might be appropriate to elevate his office to the position of undersecretary.

Although the new administration should be given the ability to organize the department as it deems appropriate, we strongly support the concept that all of the housing programs be more closely related than they currently are. Before allocating resources to new production, for instance, it is essential that preservation and utilization of existing stock be maximized.

We recognize that it might be preferable to delay the introduction of specific legislation to address the preservation issue. We believe, however, that the concept papers do not adequately reflect the urgency or the scope of necessary action to replace the temporary 1987 act. In anticipation of a more comprehensive resolution of the preservation issues, we again commend to the committee the major recommendations of the National Housing Preservation Task Force:

RECOMMENDATIONS OF TASK FORCE

First, the greatest danger to the preservation of existing stock are the expiring project-based subsidy contracts. Even though the Housing Act of 1987 required the administration to extend those contracts, Congress neither appropriated the funds nor provided

the budget authority to carry out this provision. It is essential that Congress address these issues early in 1989 prior to the expiration of the first 5-year loan management set-aside contracts which were executed in early 1984.

Second, capital improvements: If the privately owned and operated low-income housing stock is to continue to serve its residents for the next 20 years, it will require extensive modernization. The need for modernization of the public housing stock is recognized in the concept papers, at page 16.

The same need should be recognized for the privately held housing. Fixed limited return on equity and the passive income loss provisions of the 1986 tax act effectively preclude potential private investment necessary to finance this needed modernization.

Further exacerbating this situation, Congress recaptured funds which HUD had earmarked for capital improvement needs and instead allocated them to other uses.

We strongly recommend that the Congress address this issue and either allocate funds for modernization or provide sufficient incentives to attract the needed private capital.

Third, contractual rights: The concept papers fail to forthrightly recognize the contractual rights of owners of privately subsidized housing. When the 221(d)(3) and 236 programs were initially implemented, owners were required to limit their return on equity and precluded from refinancing their projects for 20 years as part of the deal.

They recognized that they were giving up, for that period of time, two of the most significant profit areas available to multifamily sponsors.

HUD, by regulation and contract, confirmed that these limitations could be terminated upon payment of the balance due under the mortgage at any time after the twentieth anniversary of final endorsement. It is not fair to now convey the impression that owners are the ones mainly responsible for the problems arising from prepayment.

We reiterate the preservation task force recommendations on this issue:

First, the owner has a clear contractual right to prepay and to use the property for other purposes, unless prohibited by other contracts;

Second, low- and moderate-income tenants of the existing inventory of privately owned assisted housing should be provided continuing, affordable shelter of at least comparable quality and cost, in the event the tenant's unit is lost to the inventory due to prepayment;

Third, in the event of prepayment, the tenant should be permitted to remain in place at no increase in rental cost to the tenant, except for regulatory reason, until replacement housing of comparable cost and quality is available;

Fourth, it is the obligation of the Federal Government to provide this affordable replacement housing.

AMEND 1986 TAX REFORM ACT

Our fourth major recommendation is that the Tax Reform Act of 1986 must be amended. Tax shelter was always viewed as a major incentive for investment in low-income housing. When Congress removed the availability of tax shelter, it also removed the major incentive for further investment in these projects and broke faith with those who had committed their funds to this effort.

Unless and until Congress is willing to correct this legislation, the Council doubts that any future programs will be successful. As part of an incentive program to induce owners to voluntarily forego their prepayment privileges, we urge that:

First, owners of projects eligible and able to prepay should be permitted to reestablish the depreciable tax basis at an amount determined by the project's appraised value;

Second, that owners of existing projects should also qualify for low-income tax credits;

Third, that the sale of existing limited-dividend low- and moderate-income projects to a public entity or nonprofit organization should be treated as a nontaxable event.

As to other preservation issues, there are a number of projects, many of them coinsured under either 223(f) or 221(d)(4), which are presently being sold at prices low enough to enable them to become a source for low-income housing. HUD should be authorized to enter into long-term contracts with the purchasers of those properties whereby they would reserve them for occupancy by low- and moderate-income families in return for project-based subsidies.

Next, the concept papers suggest that HUD be authorized to contract with nonprofit mediators to facilitate agreement between State agencies, tenants, and owners of projects eligible for prepayment. We urge that this authority be expanded to authorize HUD to contract with any qualified entity capable of offering these services.

Finally, to the list of factors that are contributing to the diminished supply of affordable housing, we recommend adding the no-growth policies adopted by certain localities. Limits on housing production tightens housing markets and causes unanticipated increases in rents and home prices. Such localities should be urged to amend their policies before being allowed to participate in any of HUD programs.

As to investment in State and local housing strategies, the Council supports the concept of the HOME Corporation, which will provide funds to State and certain local agencies to be used to expand the inventory of housing for low-income families.

The Council recommends that such funds be allocated to the States and only in certain limited cases go directly to localities. The Council does not encourage duplication of bureaucracies at the State and local levels.

We are concerned that current Federal deficits might not allow appropriation of sufficient funds to have a significant impact on the low-income housing needs.

These scarce HOP funds should only be used to expand the supply of long-term affordable housing. We would oppose their use for acquisition of troubled projects or HUD-insured, State-financed

or bond-financed defaulted projects. Such projects should be sold to private owners who are willing to enter into long-term agreements to reserve certain units for occupancy by low-income families in return for allocation of project-based rent credits.

HUD's responsibilities should be to monitor the operations of State and local government and of the HOME Corporation in order to insure proper management of projects funded under this program. Either HUD or the president of the HOME Corporation should be authorized to take appropriate action to protect their portfolio.

As to low-income rental assistance, we strongly support the merger of certificates and vouchers into the proposed rental credits. While States and localities should be allocated sufficient rental credits to support their HOP program, sufficient credits should be reserved by HUD to preserve the existing low-income housing stock and renew or expand project-based subsidies wherever appropriate.

On project-based subsidies versus tenant-based subsidies, some of our members report experiencing significant vacancies where none existed when tenants have "walked" to occupy newer projects or single-family homes which are now offered for rent in economically depressed areas. This causes negative cash flow in these projects resulting in potential default or foreclosures and hardship on the remaining tenants.

We urge the Congress and HUD to provide project-based subsidies whenever appropriate to all insured projects in order to promote project and neighborhood stability, provide better living environment for residents through improved care and maintenance and thereby protect the insurance fund.

As to cost of long-term subsidies, we believe that one of the major reasons why housing programs are viewed as being "budget busters" is the recently developed budget authority concept which calculates the cost of the subsidies over the life cycle of the contract. Very few, if any, nonhousing program costs are estimated that way. We urge Congress to enact legislation which will focus instead on yearly expenditures and not unfairly represent housing program costs.

I notice that my time has expired, and I would ask that my statement be placed in the record.

Senator CRANSTON. It will be.

[The complete prepared statement of Mr. Grady follows:]

STATEMENT OF
DANIEL B. GRADY, CHAIRMAN
NATIONAL ADVISORY COUNCIL OF HUD MANAGING AGENTS
before the
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
of the
UNITED STATES SENATE
on
NATIONAL AFFORDABLE HOUSING ACT
September 22, 1988

Chairman Cranston, Senator D'Amato, Members of the Housing Subcommittee:

My name is Daniel Grady and I am the Chairman of the National Advisory Council of HUD Managing Agents (NAC) and testifying today on behalf of that organization. I am also the President of Monfric, a firm based in San Diego, California which has been engaged in the development and management of assisted housing since the late 1960's.

I would like to thank you for the opportunity to appear before this committee and I commend you for holding these hearings to discuss the staff concept papers on the National Affordable Housing Act.

Mr. Chairman, we recognize the challenge that you have accepted in proposing at this time a renewal of the national commitment to provide affordable housing for all our citizens and commend you and members of the committee for accepting the challenge. I also want to express to the members of the staff, my personal appreciation for the cooperation, professionalism, open discussion and exchange of ideas which took place during the development of the concept papers.

Page Two

We recognize that a great deal of effort and goodwill is needed to translate these concept papers into effective legislation. Implementation of the legislation and development of workable programs will also require the full cooperation of the new Administration. The Council hopes that the Executive and Legislative branches do reach agreement on the goals of the National Affordable Act. Working together they will then be able to find methods to allocate the necessary resources to reach those goals.

We will confine our comments to the concept papers which deal primarily with rental housing with special emphasis on management.

We support the creation within HUD of three new "hot spots" or distinct centers of new activity:

1. Housing Preservation
2. HOME Corporation
3. Supportive Housing

We do believe, however, that these activities should report to the Assistant Secretary Housing/FHA Commissioner who would be responsible for all housing activities of the department. We recommend that Public Housing also be brought within his area of responsibility. It might be appropriate to elevate his office to the position of an Undersecretary. Although the new Administration should be given the ability to organize the Department as it deems appropriate, we strongly support the concept that all of the housing programs be more closely related than they currently are. Before allocating resources to new production, for instance, it is essential that preservation and utilization of existing stock be maximized.

PRESERVATION OF AFFORDABLE HOUSING

We recognize that it might be preferable to delay the introduction of specific legislation to address the Preservation issue. We believe however, that the concept papers do not adequately reflect the urgency or scope of necessary action to replace the temporary 1987 Act. In anticipation of a more comprehensive resolution of the preservation issues, we again commend to the committee, the major recommendations of the National Housing Preservation Task Force:

A. The greatest danger to the preservation of existing stock are the expiring project based subsidy contracts. Even though the Housing Act of 1987 required the Administration to extend those contracts, Congress neither appropriated the funds nor provided the budget authority to carry out this provision. It is essential that Congress address these issues early in 1989 prior to the expiration of the first five year Loan Management Set Aside contracts which were executed in early 1984.

B. Capital Improvements. If the privately owned and operated low income housing stock is to continue to serve its' residents for the next twenty years, it will require extensive modernization. The need for modernization of the public housing stock is recognized in the concept papers (page 16). The same need should be recognized for the privately held housing. Fixed limited return on equity and the passive income loss provisions of the 1986 Tax Act effectively preclude potential private investment necessary to finance this needed modernization. Further exacerbating this situation, Congress recaptured funds which HUD had earmarked for capital improvement needs and instead allocated them to other uses. We strongly recommend that the Congress address this issue and either allocate funds for modernization or provide sufficient incentives to attract the needed private capital.

C. Contractual Rights. The concept papers fail to forthrightly recognize the contractual rights of owners of privately subsidized housing. When the 221(d)3 and 236 programs were initially implemented, owners were required to limit their return on equity and precluded from refinancing their projects for twenty years as part of the deal. They recognized that they were giving up, for that period of time, two of the most significant profit areas available to multifamily sponsors. HUD, by regulation and contract, confirmed that these limitations could be terminated upon payment of the balance due under the mortgage at any time after the twentieth anniversary of final endorsement. It is not fair to now convey the impression that owners are the ones mainly responsible for the problems arising from prepayment.

We reiterate the Preservation Task Force recommendations on this issue:

* (1) The owner has a clear contractual right to prepay and to use the property for other purposes, unless prohibited by other contracts.

* (2) Low and moderate income tenants of the existing inventory of privately owned assisted housing should be provided continuing, affordable shelter of at least comparable quality and cost, in the event the tenant's unit is lost to the inventory due to prepayment.

* (3) In the event of prepayment, the tenant should be permitted to remain in place at no increase in rental cost to the tenant, except for regulatory reason until replacement housing of comparable cost and quality is available.

* (4) It is the obligation of the Federal Government to provide this affordable replacement housing.

D. The Tax Reform Act of 1986 must be amended. Tax shelter was always viewed as a major incentive for investment in low income housing. When Congress removed the availability of tax shelter it also removed any incentive for further investment in these projects and broke faith with those who had committed their funds to this effort. Unless and until Congress is willing to correct this legislation, the Council doubts that any future program will be successful. As part of an incentive program to induce owners to voluntarily forego their prepayment privileges, we urge that:

* (a) Owners of projects eligible and able to prepay should be permitted to re-establish the depreciable tax basis at an amount determined by the project's appraised value.

* (b) That owners of existing projects should also qualify for low income tax credits.

* (c) That the sale of existing limited dividend low and moderate income projects to a public entity or non-profit organization should be treated as a non-taxable event.

OTHER PRESERVATION ISSUES

** There are a number of projects, many of them co-insured under either 223(f) or 221(d)4 which are presently being sold at prices low enough to enable them to become a resource for low income housing. HUD should be authorized to enter into long term contracts with the purchasers of those properties whereby they would reserve them for occupancy by low and moderate income families in return for project based subsidies.

** The concept papers suggest that HUD be authorized to contract with non-profit mediators to facilitate agreement between state agencies, tenants and owners

of projects eligible for prepayment. We urge that this authority be expanded to authorize HUD to contract with any qualified entity capable of offering these services.

** To the list of factors that are contributing to the diminished supply of affordable housing (page 12) we recommend adding the no-growth policies adopted by certain localities. Limits on housing production tightens housing markets and cause unanticipated increases in rents and home prices. Such localities should be urged to amend their policies before being allowed to participate in any of HUD programs.

Investment in State and Local Housing Strategies

The Council supports the concept of the HOME Corporation which will provide funds to state and certain local agencies to be used to expand the inventory of housing for low income families. The Council recommends that such funds be allocated to the states and only in certain limited cases go directly to localities. The Council does not encourage duplication of bureaucracies at the state and local levels.

We are concerned that current federal deficits might not allow appropriation of sufficient funds to have a significant impact on the low income housing needs.

These scarce HOP funds should only be used to expand the supply of long term affordable housing. We would oppose their use for acquisition of troubled projects or HUD insured, state financed or bond financed defaulted projects. Such projects should be sold to private owners who are willing to enter into long term agreements

to reserve certain units for occupancy by low income families in return for allocation of project based rent credits.

The responsibilities of state and local governments and the HOME Corporation in the event of project default should be further defined. The HOME Corporation should monitor the operation of HOP projects and be authorized to take appropriate action to protect its' portfolio.

Low Income Rental Assistance

We strongly support the merger of certificates and vouchers into the proposed "Rental Credits". While state and localities should be allocated sufficient rental credits to support their HOP program, sufficient credits should be reserved by HUD to preserve the existing low income housing stock and renew or expand project based subsidies wherever appropriate.

Project based Subsidies vs Tenant based Subsidies - Some of our members report experiencing significant vacancies where none existed when tenants have "walked" to occupy newer projects or single family homes which are now offered for rent in economically depressed areas. This causes negative cash flow in these projects resulting in potential default or foreclosures and hardship on the remaining tenants. We urge the Congress and HUD to provide project based subsidies whenever appropriate to all insured projects in order to promote project and neighborhood stability, provide better living environment for residents through improved care and maintenance and thereby protect the insurance fund.

Cost of Long Term Subsidies - We believe that one of the major reasons why housing programs are viewed as being "budget busters" is the recently developed budget authority concept which calculates the cost of the subsidies over the life cycle

of the contract. Very few, if any, non-housing program costs are estimated that way. We urge Congress to enact legislation which will focus instead on yearly expenditures and not unfairly represent housing program costs.

Supportive Housing

(a) For the elderly - We strongly support "Project Retrofit". We offer the expertise of our members to develop workable legislation. We urge that Retrofit assistance be made available to all federally subsidized projects.

We believe the Forgivable Loan Plan to be one of the most innovative concepts proposed for the National Affordable Housing Act.

(b) For the handicapped - We also support the concepts embodied in this section and urge that partnerships between for profit housing sponsors and non-profit providers of special handicapped services be allowed to fully participate in this program.

(c) For the homeless - Activities now authorized under the McKinney Act should continue to be fully supported. Congress should also be aware that one of the fastest growing segment of the homeless population is that of families with children. Additional housing at affordable rents together with assistance to meet security deposit requirements will go a long way to resolve the problems of this segment.

(d) For families - Large families with small children are best housed in a detached home environment whenever possible. HUD should be encouraged to aggregate its foreclosed insured homes together with those of the Veterans Administration and the Farmers Home Administration into scattered site rental

Senator CRANSTON. Senator Riegle, do you have any opening statement?

Senator RIEGLE. No; but I would have questions for the witnesses.

Senator CRANSTON. Now we go to Daniel Wuenschel, executive director of the Cambridge Housing Authority, representing the Large Public Housing Authorities.

STATEMENT OF DANIEL J. WUENSCHHEL, EXECUTIVE DIRECTOR, CAMBRIDGE HOUSING AUTHORITY, CAMBRIDGE, MA; REPRESENTING THE COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES

Mr. WUENSCHHEL. I want to thank you for the opportunity to testify before you today on this vitally important subject.

I would like to begin by extending CLPHA's praise and appreciation for your intent to get the Federal Government back into the housing game again. After 8 years of declining Federal commitment, this is indeed good news.

As stated by the national housing task force in its March 1988 report, the time has come to raise these conditions to a compelling level of concern, to the highest priority of attention and commitment.

Only a few days ago the New York Times reported that a majority of experts convened by the National Academy of Sciences to study health needs of the homeless reported, and I quote: "Contemporary American homelessness is an outrage and a national scandal."

CLPHA strongly agrees with that sentiment and recognizes that the relationship between homelessness and the systematic withdrawal from the production of subsidized housing by the Federal Government is no accident.

With the limited time allowed today, the most important thing in the concept papers I think that I would like to emphasize is that to get the housing programs going again is going to cost the Federal Government more money. I think to not recognize that is to whistle in the dark.

MORE MONEY NEEDED FROM FEDERAL GOVERNMENT

Maintaining, modernizing, and expanding our existing public housing stock, replacing expiring section 8 existing and mod rehab certificates and vouchers, addressing the prepayment restrictions problem, expanding rental assistance programs, providing special needs housing with appropriate supports, in addition to inaugurating the entirely new kinds of programs proposed in the concept papers will, we believe, of necessity treble the current Federal commitment now running at just over \$7 billion annually.

Can the Nation really afford to spend this much more? Many say no; that that is being unrealistic.

However, with a Federal budget of over \$1 trillion annually, providing \$20 billion, three times the current level, for housing assistance would amount to less than 2 percent of that total budget. Two percent of the Federal budget for housing assistance should be within our reach, even if substantial new tax moneys do not become available for housing in the immediate future.

Obviously, that will require the renewed efforts of all of us, including political leadership at the Federal, State, and local levels to take this cause to the people, the voters who are going to support these initiatives or reject them.

Second, the overall theme of the National Affordable Housing Act that the beneficiaries of the new housing program must be more broadly based than is the current case is, I think, right. What too often hurts our efforts in the field of public housing is the cruel dilemma that the political leadership at any level has to face when asked to choose between help for the very poor who need the help most and help for those whose incomes are somewhat higher, who are also hurting badly for decent and affordable housing and who sometimes exercise more clout at election time.

Such a broader base has produced a greater continuing support for the deep subsidy programs of Farmers Home, such as the 502 program, than for public housing and has also maintained support for State and local housing finance agencies which primarily assist the moderate-income person.

In this context, I would hope that the new bill would at least restore the public housing program to an admissions limit of 80 percent of median income from the current 50 percent maximum for up to 25 percent of the public housing population wherever public housing authorities choose to do so voluntarily.

Increasing the income mix will help PHA's to achieve a better economic mix in our developments, but it will also reduce the average per-unit operating subsidy for public housing units and enable us to use the same total amount of operating subsidy to provide more units for other households.

Needless to say, while CLPHA supports the broader range of the beneficiaries theme, we are worried that such a philosophy, when implemented in a system of scarce resources, would mean less for public housing, less for our most needy citizens. And we believe that would be a tragic mistake.

The funds must be sought instead by expanding the total funding available for housing programs so that sorely needed housing programs for the poor can grow, too.

The theme of flexibility in the production programs and adapting to meet local markets does make good sense. We hope, however, that we don't read in this a broad, single housing block grant which would require public housing to compete with for-profit developers, Community Development Corporations, and so forth for its only source of production funding. If this were the case, I think the results would be tragic.

I may be confused on this issue, and I spoke briefly with Don Campbell, but our reading of the concept papers would have public housing in a special needs category. And our feeling is that that would be a mistake.

SPECIAL NEEDS CATEGORY

There are hundreds of thousands of public housing families—yes, even two-parent families—whose only special need is money. To place such public housing in a special needs category would run the risk of isolating PHA's even further than we currently are.

Many families in New York City public housing alone, as Senator D'Amato I think would attest, would have a lot to say about a designation that public housing is only special needs.

If we are wrong on that, we are glad to be corrected.

In terms of special needs housing, we do understand that we have a special needs population.

We want your help. We want help to deal with that special needs population. But we don't want public housing to be seen as special needs housing alone. In the past public housing has been treated to a considerable degree as the only program which would take so-called special needs people, and we would resist what has been, in our opinion, creaming in the other programs from the past.

Let me summarize very quickly my concern because time is running.

We are concerned about certain themes in the concept papers, for example the suggestion of a single block grant approach to all assisted housing. As I have mentioned before, the papers seem to be unduly influenced by the State agency model. And we question that. The papers have little to say about public housing except for the continuing support for the modernization program. And we understand that there will be more on public housing forthcoming, and we look forward to that.

Our recommendations are contained in a new publication from CLPHA called "Public Housing Tomorrow." And with your permission, I would submit the balance of my speech and "Public Housing Tomorrow" for the record.

Basically, there are several recommendations we would like to make here. And that is that we maintain a separate public housing development program and restore it to at least 30,000 units annually of new construction, major rehabilitation, and acquisition.

That we allow greater flexibility in the use of public housing development funds by PHA's. The current method is silly. You get development funds for new construction, you are able to go do some rehab, and you cannot switch the two. It is ridiculous.

Allow public housing authorities, as the national housing task force provided, to share in any new nonpublic housing block grant funds for development.

Provide \$2.5 billion per year to address the backlog of modernization needs in public housing and distribute these funds more equitably in line with identified needs.

Gradually phase in additional funding for routine maintenance—routine replacement funds so that a backlog doesn't build up again.

Support and strengthen the current section 8 existing program and mod/rehab programs. The argument of section 8 versus vouchers has been termed a silly argument by some, but it is not silly to those families that pay 50 percent of their income for rent through the voucher program. We would ask that you do provide additional fundings to PHA's to enable them to extend much-needed services for those special needs households that live within public housing.

Thank you very much for your attention. I am sorry if I ran over. As I say, I would like to offer "Public Housing Tomorrow," for the record as well.

[The complete prepared statement of Mr. Wuenschel follows:]

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projects to house families with three or more small children. Our members who are operating similar projects assisted under Section 8 report excellent results.

We strongly urge support for additional services for large families such as child care, after school child supervision and other programs which will enable parents to seek and retain full employment.

In conclusion Mr. Chairman, we commend the staff for having developed these concept papers and commend you and the subcommittee for holding these hearings. Housing Policy should and hopefully will receive the attention it deserves during the current election campaign. We all hope that the new Congress and new Administration will place enactment of the National Affordable Housing Act among its' highest priority for 1989.

Testimony of Daniel J. Wuenschel, Chair, Council of Large Public Housing Authorities (CLPHA), before the U.S. Senate Subcommittee on Housing and Urban Affairs, September 22, 1988.

Subj: Affordable Housing Act (staff proposals on homeownership affordability, affordable rental housing, and special needs housing).

Mr. Chairman, Senators, staff and invited guests, thank you for the opportunity to testify before you today on the subject of this Committee's staff concept papers relative to the National Affordable Housing Act being developed by the Committee.

1. Restoration of federal role in housing.

First, I want to extend CLPHA's praise and applause to you for your intent to get the federal government back into the housing game again. After eight years of declining federal commitment, that is indeed good news.

As stated by the National Housing Task Force in its March 1988 report, "The time has come to raise these conditions to a compelling level of concern -- to the highest priority of attention and commitment...."

And only two days ago, the New York Times reported that a majority of experts convened by the National Academy of Sciences to study health needs of the homeless reported that "contemporary American homelessness is an outrage, a national scandal." CLPHA strongly agrees.

2. Increased funding will be required.

Since I am allowed only five minutes today to speak, let me get my most important item out onto the table first. If I were allowed to change only one thing in the "concept papers", it would be to emphasize that getting housing programs going again will cost the federal government more money.

Maintaining, modernizing and expanding our existing public housing stock, replacing expiring Section 8 existing and mod rehab certificates and vouchers, addressing the prepayment/expiring use restrictions problem, expanding rental assistance programs, providing special needs housing (with appropriate supports) -- in addition to inaugurating the entirely new kinds of programs proposed in the concept papers -- will of necessity at least treble the current federal commitment, now running at just over \$7 billion annually for housing assistance.

Can the nation really afford to spend this much more? Many I know say no, that that's being unrealistic. However, with a federal budget of over \$1 trillion annually, providing \$20 billion for housing assistance would amount to less than two percent of that total budget! Two per cent of the federal budget for housing assistance should be within our reach, in a fairer system of national priorities, even if substantial new tax monies do not become available for housing in the immediate future.

But it will require the renewed efforts of all of us, including political leadership at the federal, state and local levels, to take this cause to the people, the voters, who are going to support these initiatives or reject them.

I am also concerned about the Act's apparently unnecessarily complex and cumbersome provisions regarding new financing mechanisms for funnelling housing assistance to state and local governments. In my experience, the simpler such mechanisms are, the better, and the more likely it is that the majority of the benefits will reach those for whom they are intended.

3. Yes, Broaden the Base.

The overall theme of the National Affordable Housing Act, that the beneficiaries of a new housing program must be more broadly based than currently, is right I think. What too often hurts our efforts in the field of public housing is the cruel dilemma that political leadership at any level has to face when asked to choose between help for the very poor, who need the help most, and help for those whose incomes are somewhat higher -- who are also hurting badly for decent and/or affordable housing (and who sometimes exercise more clout at election time).

Such a "broader base" has produced greater continuing support for deep-subsidy FmHA housing programs, such as the "502" home-ownership program, than for public housing; and has also maintained support for state and local housing

finance agencies (HFAs), which primarily assist a moderate-income population.

In this context, I would also hope that the new bill would at least restore the public housing admissions limit to 80% of median income, from the current 50% maximum, for up to 25% of the public housing population, wherever PHAs choose to do this voluntarily. Increasing the income limit not only will help PHAs to achieve a better economic mix in our developments, but also reduce the average per unit operating subsidy for public housing units and enable us to use the same total amount of operating subsidy to provide more units for other households. CLPHA members continue to be highly concerned about their ability to maintain the social and economic viability of public housing developments through these kind of 'mixing' efforts, especially in our larger public housing developments (e.g. those over 200 units).

4. But not at the expense of the poor.

Needless to say, while CLPHA support the 'broader range of beneficiaries' theme, I am always worried that such a philosophy, when implemented in a system of scarce resources, would mean less for public housing -- which would be a tragic mistake. The funds must be sought instead by expanding the total funding available for housing programs, so that sorely needed housing programs for the poor can grow, too.

The theme of flexibility in the production program(s) and adapting to meet local markets does make good sense. I hope I don't read in this, however, a broad, single housing block grant which would require that public housing compete with for-profit developers, CDC's, etc., for its only source of production funding. If this is the case, little if any new public housing will be built -- a tragedy for low income people and the nation.

5. All low-income family public housing is not "special needs" housing.

I especially worry that, as I read them, the concept papers include all family public housing within the rubric of "special needs housing." Why?

There are hundreds of thousands of public housing families (yes, even two-parent families) whose only "special need" is money. To place all such family public housing in a "special needs" category would run the risk of isolating the PHAs and hundreds of thousands of residents, as if they had only some kind of 'oddball' needs.

I think that many, many families in New York City public housing alone would have a lot to say about such a designation.

There is no reason to avoid the recognition that many families in America need housing assistance simply because they are poor.

Placing such family public housing in the 'special needs' category, I think, puts it in long term jeopardy. It narrows the ground for public housing even more than it is today -- and that is our problem. Why should the nation's poor families be labelled as a "special needs" clientele, when most simply lack income?

Do we also label people "special needs" who benefit from Housing Finance Agency programs, or other kinds of housing assistance? No. In those cases, we say that we are giving typical deserving American families a little extra financial help to achieve affordable housing. Well, poor families are also typical in America, and they need some extra financial help to achieve affordable housing, too.

Please don't misunderstand me. There is no question that PHAs can and should address the problems of individuals and households that do in fact have special needs: the physically and mentally handicapped, the homeless, the frail elderly, those who can benefit from job training and day care, etc. My own Housing Authority in Cambridge (MA) has in fact already achieved many successes along these lines, of which I believe we can be justifiably proud. And PHAs need, and would be grateful for, funds to help provide our residents with day care, job training, frail elderly service coordinators and other services. [Also see CLPHA's "Gateway" bill.]

But these genuinely special needs groups are not the same as typical low income households. I just know that if we are further isolated or narrowed we'll continue to lack enough broad support to have a voice on Capitol Hill.

I also suspect that if public housing is seen essentially as "special needs" housing, it will end up as a de facto dumping ground for all the people whom other programs or organizations do not care to deal with -- their "rejects" so to speak. This shameful "creaming", that was practiced in the heyday of Section 8 new construction and is still being practiced, should not be permitted. Each segment of the new housing spectrum should house its share of the neediest people.

6. Summary of CLPHA concerns.

Mr. Chairman, once again I want to commend the lengthy process which you and the Committee staff have gone through to solicit the views of people across the nation concerning our future housing policy. It shouldn't come as a surprise to anyone that your initiative has evoked a great variety of recommendations: I think the proposed draft Act appropriately envisions a broad approach to the housing crisis, with several necessary components.

I worry about certain themes, however, which:

(a) suggest a single block grant approach to all assisted housing production (which would hurt public housing);

(b) seem to be unduly influenced by the state agency model (state Housing Finance Agencies generally speaking have an abysmal record in housing the poor);

(c) have so little to say about public housing (except for continuing support for the public housing modernization program) -- with no mention of a continuing public housing production program except in the "special needs" context; and,

(d) fail to focus a needed HUD re-organization upon strengthening and increasing the resources and attention given to low-income housing, e.g. by putting the Section 8 existing and mod rehab programs under the Assistant Secretary for Public Housing, and may in fact obscure this important area by 'melding' it with moderate income housing programs within HUD.

7. CLPHA's recommendations.

We recognize that the purpose of the concept papers, at least up to this point, has not primarily been to outline improvements for the public housing program.

However, CLPHA would now like to see public housing provisions added to these papers, so that they more fully and comprehensively address the nation's housing, especially low-income, housing needs. Public housing has suffered enough neglect over the past several years. If there is now to be a new "take-off" for the nation's housing programs,

Senator CRANSTON. We will be happy to have that document. I now welcome Mary Lee Widener from Oakland, California, president of the Neighborhood Housing Services of America. Thank you, Mary, a personal friend of mine.

STATEMENT OF MARY LEE WIDENER, PRESIDENT, NEIGHBORHOOD HOUSING SERVICES OF AMERICA, OAKLAND, CA

Ms. WIDENER. Thank you. We thank you all for your work on this important subject and for the opportunity to appear on behalf of the Neighborhood Housing Services network.

The staff concept papers are great, and I congratulate you for it. I would like to add my voice to those of others and encourage you to make light and moderate rehabilitation an eligible use of funds. I am sure you are not surprised at that coming from me.

But more basic, the policy guidelines need to more fully reflect neighborhood conditions as a dimension. I know that it is assumed that you support that from all of your past actions, but I think determining how that dimension will be played out is worthy of this committee's careful attention. I hope that one way will be to look at something that you have helped build over the last decade, the Neighborhood Housing Services network, through your enactment of the Neighborhood Reinvestment Corporation and your support of its work over these past years.

I am proud to say you did a good thing. Please accept our gratitude for all of that support and early leadership.

The network is now in over 300 neighborhoods and 139 cities. It includes more than 3,000 business and Government partners, most of whom are listed in this booklet that I would like to submit for the record.

[The booklet referred to may be found in committee files.]

Ms. WIDENER. They are supporting the work of thousands of neighborhood resident volunteers and the population of the NHS neighborhoods is now over three million, all of whom now benefit from an improved quality of neighborhood life because of the work of those local groups.

Many have received direct housing and lending services from their NHSA's, backed by healthy nonprofit secondary market programs operated by Neighborhood Housing Services of America. It has been one of the most rewarding experiences of my life to head that program.

We now have real evidence of the confidence of the private sector in the NHS network in over \$200 million of social investment and lending agreements, all private money, to support the work of those local groups.

More than numbers, what is important is the NHS network has evolved into a holistic delivery system loaded with know-how and anxious to do more. It needs the continued access to Community Development Block Grant funds and the backup of the training, technical support, and strategic resources from the Neighborhood Reinvestment Corporation.

The new housing policy should encourage them and others with continued flexibility and Federal funds and increased access to low-cost capital. The policy should also be sensitive to the needs for

good-quality housing in quality neighborhoods that make good places to live and raise families.

Especially given the importance of stretching scarce Federal dollars, I would like to add my voice to that of Senator Dixon's in encouraging you to build on something that works. Build on this proven delivery system and expand the work of the NHS network as an important part of the new housing policy.

We have developed a legislative proposal for introduction in the House and for your consideration in the 101st Congress. We would welcome its introduction in the Senate as part of, or in separate legislation complementary to, the National Affordable Housing Act.

Thanks again for the opportunity to speak, and I would be more than pleased to take questions.

[The complete prepared statement of Ms. Widener follows:]

public housing wants to be "on board" when the plane leaves the runway!

CLPHA submitted our recommendations to you in October 1987, and these remain the basic fundamentals of CLPHA's position re new directions for the public housing program. Attached to this testimony is a more recent CLPHA publication, "Public Housing Tomorrow," which summarizes (and in a few cases elaborates upon) the recommendations CLPHA made to this Committee last year.

Let me recap the most important of these recommendations briefly below. We urge you to include these and other public housing provisions in your new bill.

- a. Maintain a separate public housing development program and restore it to at least 30,000 units annually of new construction, major rehabilitation and/or acquisition.
- b. Allow greater flexibility in the use of public housing development funds by PHAs, for example to purchase coop or condo units, to buy units in private developments, to leverage production of units by the private sector, and to enable PHAs to enter into joint ventures with non-profits and CDCs.
- c. Allow PHAs to apply for a share of any new, non-public housing, block grant funds for development.
- d. Provide \$2.5 billion per year to address the backlog of modernization needs in public housing, and distribute these funds more equitably, in line with identified needs, more predictably, and with less HUD interference.
- e. Gradually phase in additional funding for PHAs' routine replacement needs, to avoid the build-up of another large backlog of modernization needs comparable to the one presently existing.
- f. Guarantee annual public housing operating subsidy funding at 100% of PFS needs, and make adjustments to

the Allowable Expense Level (AEL) so that it reflects the real costs of operating in the current public housing environment, and the client groups being served.

g. Support and strengthen the current Section 8 "existing" and mod rehab programs, one of the best programs we presently have. It should not be replaced by a voucher program, which results in recipients' rent burdens escalating to 40%, 50%, 60% and more of their incomes (for rent). However, certain administrative provisions which HUD has in the past applied selectively to the voucher program might be usefully extended to the Section 8 existing and mod rehab programs. We need a single program. The debate is not a "silly" one, as some have claimed. There is an enormous difference to the recipients in terms of what they have to pay, and vouchers with 50%+ rent burdens don't achieve the goals of any reasonable program.

h. Provide additional funding to PHAs to enable them to extend their abilities to bring in much-needed services for special needs households living in public housing (and in limited cases, to provide such services directly themselves). [See CLPHA's proposed "Gateway" legislation, recently introduced into the House of Representatives by Rep. Stokes.]

Thank you for this opportunity to appear before you today. If you have any questions, I would be happy to try to answer them at this time.

Attachment: "Public Housing Tomorrow," by CLPHA, September 1988, 28 pages.

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STATEMENT OF MARY LEE WIDENER

Mr. Chairman and Members of the Committee,

First, on behalf of the entire Neighborhood Housing Services (NHS) network of millions of residents, and over 3,000 local business and government partners, we are greatly appreciative of the work of this Subcommittee. We appreciate, too, the opportunity to offer comments on the excellent set of staff concept papers which will help shape your legislative proposals.

First, we want you to know that we strongly agree that the guiding principles of a new housing policy should include the points that you have highlighted: (1) support for affordable housing as a vital investment in a long-term national asset, (2) partnership as a central theme, and (3) a framework which (a) builds on what works, (b) expands a system of responsive institutions, (c) provides flexible federal support to housing, and (d) addresses the housing needs experienced by all Americans.

How the Bill will be structured is a matter I will leave to others. It would be important, however, to indicate, as the papers suggest, that whatever the Bill contains will not be and should not be considered the only legislative actions needed for a comprehensive housing policy.

Although there undoubtedly will be other legislative opportunities to address the areas that will not be covered in the Bill, I do feel it would be important to more broadly encompass rehabilitation of existing units than the present language permits. There presently is an explicit exclusion of light and moderate rehabilitation from the eligible uses of funds under the Bill. Given the fact that more than seven million substandard units have been identified, with more than five million occupied by low- and moderate-income families, avoiding major losses of units because of an inability to make repairs would quickly negate other gains in adding the units envisioned by the concept papers. It would be unwise to ever make this huge supply of housing for lower income families ineligible for funds intended to address affordable housing needs of all Americans.

With regard to the general framework for a new housing policy, it would be important to add another dimension--neighborhood condition. Whether through the National Affordable Housing Act or through complementary legislation, it would be very important to consider the specific needs of the delivery mechanisms which will be used to address housing and neighborhood condition.

The evidence is overwhelming that improving neighborhood condition must parallel additions to the housing supply, because

TESTIMONY BY

MARY LEE WIDENER, PRESIDENT

NEIGHBORHOOD HOUSING SERVICES OF AMERICA

BEFORE THE

SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

SEPTEMBER 22, 1988

WASHINGTON, D. C.

families not only seek roofs over their heads -- they seek safe and decent community environments in which to raise their families. Without attention to neighborhood condition, the evidence is strong that in many locations large numbers of existing units will go unoccupied and newly constructed units will fail.

The structure of a comprehensive housing policy needs to include the approaches presented in the concept papers and include, as well, continued support of the delivery mechanisms which bring about improved neighborhood condition. One such delivery mechanism, of course, is the Neighborhood Housing Services network. Its work is facilitated by the Congress through the Neighborhood Reinvestment Corporation.

Congress created the Neighborhood Reinvestment Corporation as a public, nonprofit corporation to expand this network and provide grants and technical services to the local, autonomous privately-based Neighborhood Housing Services.

Congress' vision was to complement government programs with a non-bureaucratic public corporation which could mobilize community, business and local government support for stabilizing neighborhoods and rehabilitating older deteriorated homes. Neighborhood Reinvestment leveraged its \$19 million 1987 appropriation with \$50 million in contributions from over 3,000 businesses and local governments. This was further leveraged with \$56 million in below-market rate loans, \$302 million in conventional mortgages, \$127 million in owner reinvestment and \$132 million in neighborhood public improvements.

The neighborhood delivery system the Neighborhood Reinvestment Corporation has developed is engaged in the hardest job in housing and community development. Rehabilitating older homes and small apartment buildings is something that neither for-profit nor nonprofit developers like to take on. It is slow, painstaking work with few opportunities for economies of scale. But it is essential to our nation that this last low-cost housing resource be saved.

Of course, I would like to go on record describing the NHS delivery mechanism and encouraging your support of expanding it as an important part of a new housing policy. We will be guided by your wishes as to whether or not support for the NHS network should be within the National Affordable Housing Act or in separate legislation. Either approach would be fine with us and we are preparing accordingly. My remaining remarks are geared to present the NHS delivery mechanism and its potential for helping the committee achieve its goals for improved housing and neighborhood condition.

DESCRIPTION OF THE NHS NETWORK

The Neighborhood Housing Services (NHS) network has evolved over the last decade and a half as a leading program initiative of the Congressionally-chartered Neighborhood Reinvestment Corporation. The network includes NHS organizations, the Apartment Improvement Programs and Mutual Housing Associations as central to the housing and neighborhood revitalization services provided. It also includes Neighborhood Housing Services of America (NNSA), a national private nonprofit corporation. NNSA brings added private sector strength to the network and, through a pioneering secondary market, gives local community loan funds access to the private investor market as a resource for replenishing their lending capacity.

NHS organizations operate in 139 cities nationwide. They provide housing rehabilitation services to neighborhood residents: financial counseling, work write-ups and construction monitoring, and direct lending from a revolving loan fund. They also carry out planning and marketing of the neighborhood improvement effort, and as neighborhood conditions warrant, construct in-fill housing, and purchase, rehabilitate and sell vacant structures, revitalize commercial areas, as well as providing transitional housing for the homeless, and job training for at-risk youth.

Multi-family rehabilitation has become a significant area of production for NHS partners in 22 cities and they are operating 35 Neighborhood Commercial Development programs.

Development of Mutual Housing Associations is the most recent strategy being undertaken by NHS partners. It is based on successful demonstration of the concept in Baltimore as a workable vehicle for long-term ownership of publicly-assisted, private rental stock for lower income persons. The association's goals allow use of public investment in future housing production, through inclusion of a "return on public investment" in monthly fees. Its structure also includes neighborhood participation along with occupants in the management of the units to assure that neighborhood standards are met.

This tool is particularly responsive to all the guiding principles of the anticipated National Affordable Housing Act.

Neighborhood Housing Services of America was founded as a national private, nonprofit organization in 1974 to marshal private sector financing for NHS organizations. It provides liquidity to the nearly \$160 million in loan funds operated by NHS organizations.

NNSA has developed \$40 million in social investment agreements and \$25 million in a FNMA Master Commitment agreement

in support of the single-family and multi-family loan fund liquidity needs of the NHS network. Loan placements against these agreements total \$30 million in support of the single-family program and \$15 million in support of the multi-family program. Most recently, NHSA has negotiated an additional \$130 million in special lending agreements to facilitate urban lending in New Jersey.

NHSA and Neighborhood Reinvestment are starting up a new pilot program in partnership with the Allstate Insurance Company. Allstate will purchase \$10 million in notes from NHSA backed by local government loans in circumstances where the proceeds go to further the NHS and community development needs of the locality making the sale.

The loans and grants that capitalize the NHSA secondary market program are provided by major insurance companies, philanthropic organizations, religious organizations, and the Neighborhood Reinvestment Corporation.

NHS NETWORK RESULTS

Revitalization has been completed in 71 neighborhoods and work is in process in 245 more, improving neighborhood conditions for the nearly three million Americans who reside in NHS program areas. Their household incomes average 72% of the national median and 70% of their neighborhoods have household incomes between 50% - 80% of the city's median.

Survey results of the NHS network as of December 1987, show cumulative housing production as follows: direct rehabilitation of 81,000 units, including 15,500 rental units, new construction of 750 units on scattered-site vacant lots; purchase rehabilitation and sale of 430 vacant properties; improvement of 290 commercial properties; conversion of 3,300 tenants to homeowners; and nonprofit management of 800 rental properties. This direct activity leveraged a multiple spin-off as investor confidence in the neighborhood was restored. Overall reinvestment through the network in formerly declining neighborhoods is \$4.9 billion.

THE NHS NETWORK AS A NATIONAL RESOURCE

The net result of the past ten years of work of the Neighborhood Reinvestment Corporation as it evolved the NHS network has been to not only rebuild neighborhoods and build and improve houses. Equally as important, the Corporation has created hundreds of effective local institutions across our nation which have taken responsibility for taking care of the "neighborhoods in need" in their cities. Further, it has created proven approaches to equipping disadvantaged persons with tools to rebuild their lives and gain control over the futures of their

neighborhoods where they can feel safe and proud to raise their families.

This network of private institutions and the Neighborhood Reinvestment Corporation represents an important national resource for increasing affordable housing opportunities across the nation within suitable living environments.

CASE EXAMPLE OF THE NHS NETWORK AT WORK

One example of the success of the NHS approach can be seen in the Patterson Park neighborhood in nearby Baltimore.

In the early 1970's the neighborhoods north of Baltimore's Patterson Park were in trouble. These streets of brick rowhouses were pockmarked by the boarded-up windows of vacant and abandoned buildings. Rats lurked in the trash and debris that collected around the empty houses and spilled into the alleys and streets. Paint curled and gutters sagged on many of the inhabited structures, owned by absentee landlords. Much of the housing was substandard. On some of these blocks only 10% of the residents owned their homes. Many of those who could flee to the suburbs did, leaving behind a population increasingly elderly, increasingly poor. For years the only sales were to speculators.

Today, that same area is sparkling with freshly upgraded houses and clean streets and alleys. Neighborhood Housing Services (NHS) of Baltimore, a working partnership of neighborhood residents, business leaders, and state and local government officials, has renovated over 500 vacant homes. It put together \$9.4 million in below-market rate home improvement loans for 600 families who couldn't afford conventional financing. It helped 700 families, most with incomes of \$10,000 to \$17,000, purchase their own homes. The assessable tax base in the NHS's initial twelve-block area has increased 400%, from \$1.9 million to \$9.8 million. Working patiently and carefully, house by house, block by block, NHS of Baltimore has transformed Patterson Park into a neighborhood of choice.

One of the first ten NHSs created by Neighborhood Reinvestment, the Baltimore NHS, under sponsorship by the South East Community Organization (SECO), began work in a twelve-block area. Although, overall, 45% of the residents of the neighborhood's aging rowhouses owned their homes, on many of the blocks the level of homeownership was as low as 10 or 15%. And there were hundreds of vacant and abandoned buildings scattered throughout Patterson Park. Because of the neighborhood's rowhouse construction, a vacant property left to deteriorate was not only discouraging to residents, it also threatened the integrity of the homes on either side.

At first the NHS's work was slow and difficult. All the

partners were maintaining their commitment to the revitalization effort: the City of Baltimore to improve capital improvements in the neighborhood and provide sensitive code inspection services; the business and financial institutions to fund the operating budget and provide conventional financing to those residents who qualified; the residents to improve their own homes and to encourage their neighbors to participate. The NHS had loan money available at flexible rates and terms for those residents who couldn't qualify for conventional loans. But the low level of homeownership and the high level of vacant property in the neighborhood was slowing the effort. Many residents doubted that their neighborhood could be turned around.

To meet this challenge, the NHS devised a program to increase homeownership in the neighborhood. The NHS identified landlords who were willing to sell and tenants who wanted to buy. It held neighborhood tours and set up a booth at the Baltimore City Fair. The NHS hired a tenant advisor to prepare tenants to become homeowners. At the same time, the City of Baltimore was offering vacant city-owned houses for \$1 apiece to buyers who could rehabilitate them within 18 months and would then live in them. Twenty of these "dollar houses" were in Patterson Park, and the NHS located buyers for them and then helped those buyers complete the required rehabilitation work. Within two years, 200 homes had been purchased in Patterson Park as a direct result of the NHS's Home Ownership Program. Nearly 80% of these homes were purchased by tenants already living in the neighborhood.

By 1978, NHS of Baltimore was ready to take on new challenges. In the spring of that year, the NHS began a Home Maintenance Program. For a pre-payment of \$10 a year, the program provided its elderly, disabled, and single parent participants with an unlimited number of minor home repairs and an annual home inspection. The program's initial funding was underwritten by grants from The Ford Foundation and the U.S. Department of Housing and Urban Development (HUD).

That same year the NHS expanded geographically with Neighborhood Reinvestment's assistance, as well as programmatically. It added additional sub-neighborhoods to its original area, providing services to a total of 6,000 homes and 20,000 residents in Patterson Park. And it developed a second NHS across town, in Govans, a Black neighborhood in Northeast Baltimore. This second Baltimore NHS serves 3,000 homes and 10,000 residents.

One important principle of NHS revitalization is that the neighborhood improvement should benefit existing residents. Although Patterson Park's Home Ownership Program was increasing confidence in the neighborhood and giving many tenants the security of owning their own home, the strategy was not appropriate for everyone. Not all residents can or want to buy.

And the NHS recognized that rising property values and increased homeownership might create the perception that low-income residents no longer had a place in the community.

To help avoid displacement, NHS of Baltimore developed another major program component, Neighborhood Rental Services (NRS), in early 1979. The NRS program, separately incorporated but affiliated with the NHS, purchases dilapidated rental properties, usually vacant and abandoned, rehabilitates them, and then manages the units. NRS uses the Section 8 rental program for each building, ensuring that the housing is available to those tenants who would otherwise be at the greatest risk of displacement. Currently, NRS owns and manages 75 units and is in the process of rehabilitating another 17.

And finally, in its efforts to meet the housing and neighborhood revitalization goals of its Govans leaders, the NHS of Baltimore participated in the development of yet another creative program. It met affordable housing goals and turned blighted vacant land into attractive sites in the neighborhood. It served as the pilot for the first Mutual Housing Association under the Neighborhood Reinvestment Corporation's national demonstration.

The first 49 Mutual Housing townhouses are already occupied and an additional 52 are under construction. When complete, the Baltimore pilot will have a total of 101 one-, two-, and three-bedroom townhouses. Each dwelling unit will be a long-term national investment in affordable housing and yet provide for its occupants the qualities of homeownership. Both these goals are achieved because there is no return on the occupant's equity -- a fee of 5% -- and because each resident has the security of tenure.

Mutual Housing, Neighborhood Rental Services, Home Ownership -- each of these components has helped meet specific needs in Baltimore's NHS neighborhoods. Each has been developed as a tool to help create the residents' vision of safe, healthy neighborhoods.

The residents have defined the vision and the local business community has invested their financial and managerial resources to make these additional program tools not only possible, but also helps to assure their effectiveness. Baltimore's business community has invested over \$48 million in NHS operations.

The City of Baltimore, famous for its celebration of neighborhoods, has invested over \$15 million dollars in the NHS neighborhoods. Concrete evidence of the City's wisdom is seen annually as increased tax receipts from the Patterson Park neighborhood each year exceed the total amount invested by the city in Patterson Park over the 12-year period it took to return

the Patterson Park neighborhoods to a healthy, self-reliant condition.

And so the program's real success depends not only on programmatic tools, but on sustained commitments from its resident, government, and business partners.

KEY TO SUCCESS

A key to the success of each NHS has been the benefits it receives as part of a nationwide delivery system. The Neighborhood Reinvestment Corporation gathers resources, provides training and technical assistance, develops and transfers new tools to meet changing neighborhood conditions, and makes direct grants to help launch the neighborhood strategies.

Increasing this success requires access to additional resources (low-cost capital, specific proven strategies and technical assistance) in a timely manner so that problems can be addressed when they occur. For example, locally, an NHS loan committee needs the ability to be able to make rehabilitation loans on properties of needy families that would restore confidence of the families and the neighbors in the neighborhood's future.

Similarly, in a soft real estate market, an NHS needs access to low-cost capital and specific tools necessary to protect properties that are about to be acquired cheaply and rented out in a deteriorated manner by an absentee landlord.

Or, conversely, in our hot markets, NHSs need access to low-cost capital and tools required to either protect the existing low-rent housing which is vulnerable to being priced out of the income of current neighborhood residents; or they need the resources to produce new housing -- both owner-occupied and rental -- affordable to their neighborhood's residents.

Over the years, Neighborhood Reinvestment has developed not only the tools that are needed, but equally important the systems and mechanisms to get those tools and resources out in an efficient and flexible manner. Its results are quantifiable accomplishments; the cost effectiveness (every dollar invested by Congress through Neighborhood Reinvestment has generated \$33 in local reinvestment); and the years of refining and testing different tools enable us to offer to Congress a proven national system of tools, resources and capabilities.

CONCLUSION

In developing a housing policy, we think it is essential to develop such a policy within a context of neighborhood; a policy that provides our low- and moderate-income population not only a house but a decent living environment.

We must ask ourselves why, with a housing crunch as severe as exists in this country, so many neighborhoods are spotted with vacant and abandoned units; why our public housing authorities cannot keep up with the turnover and maintain units despite long waiting lists; and why whole communities reject the placement of new affordable housing within their boundaries?

We can no longer assume that the answers to these problems are solely in the area of insufficient funding for additional units. Unless we strengthen the ability of neighborhood residents to have a real stake in their communities, such as occurred in the Patterson Park example, then we are destined to develop housing policies that will fall far short of their goals and their potential.

The type of resources envisioned in the staff concept papers through HUD are essential to the implementation of any effective national housing policy. Expansion of Neighborhood Housing Services as a complementary delivery mechanism is also essential to the implementation of any effective national housing policy. In many cities, local NHSs are the delivery mechanism for HUD programs and resources. In other instances, NHSs work to access HUD resources for specific projects in their neighborhoods. Both HUD resources and the NHS delivery mechanism are needed.

We offer to Congress a network that works -- the Neighborhood Reinvestment Corporation, NHSA, and over 240 local partnership groups -- a network that should be expanded as an important part of a national strategy which seeks to offer a decent place to live in a suitable living environment for all Americans.

Accordingly, we have developed a specific proposal for Congressional consideration. It will be introduced soon in the House and we look forward to its introduction in the Senate early in the 101st Congress as complementary to or as part of the National Affordable Housing Act.

- Senator CRANSTON. Thank you very, very much, and thank you for saying so much so briefly. I appreciate it very much.

We now go to Marilyn Melkonian, president of Telesis Corporation.

STATEMENT OF MARILYN MELKONIAN, PRESIDENT, TELESIS CORP., WASHINGTON, DC

Ms. MELKONIAN. Thank you, Mr. Chairman. I want to thank the chairman for providing me with the opportunity to present testimony today.

I was a member of the national housing task force which, along with the many other people who contributed to the study of this issue in the last year, really at the direction and urging of the chairman and the ranking member, have, as a result of that effort, carried out, I think, the most comprehensive review of national housing policy in half a century.

We have learned a great deal from that, and I think we have come to certain conclusions as well. The most important conclusion, I think, was that we did reaffirm the promise that we made 40 years ago: That every American was entitled to a decent home and a suitable living environment. I don't think we can overestimate the importance of the reaffirmation of that principle, because that is the point of departure.

I think the second thing that we learned was where the housing problem is, and as Senator D'Amato said in his remarks, it covers a broad spectrum, but it is also a concentrated problem and that gives us a chance to focus our energies and our efforts.

The housing problem is most severe for people earning below \$15,000 a year. That represents over 30 percent of all American households. Of those households, half of them, 16 million households, are overburdened in the way that we define housing overburden: Paying more than 35 percent of income. And half of those—in other words, eight million households—one out of every four households that earns under \$15,000 a year is not only overburdened, but one out of four is paying more than 60 percent of income for housing.

Now, that is a crushing burden, and it gives us a very good example—an illustration and explanation, really—of why homelessness is so pervasive:

There are 8 million families, households, who are one job loss or one illness away from the street. So, that is the pipeline for homelessness, and I think that is why, it is that image in our consciousness that draws our attention to how severe the housing problem is for this segment of our population.

The next conclusion I think that we came to was that this cannot be solved—and this may sound simple, almost obvious—it cannot be solved by the private market acting alone, that there must be public intervention in order to rectify that imbalance between housing costs and the affordability of that housing to so many of our fellow citizens.

INCREASE PUBLIC INVESTMENT

The question came: What then must we do? We have to increase public investment. That is the edge to which we have been brought by the work of the last year and the very able work of the staff of this committee and the concept papers that they have given us for consideration.

But the key question is the investment. And I don't think, as much as we can comment on it—and I have included comments on the program design—I don't think we can avoid the question of what kind of public investment can be expected over the long term. And that is a decision that only this committee and this Congress can take. And it requires planning and a commitment that will continue, because housing is an activity that requires investment and time in order to produce results.

If we were to enact the legislation or if the concept of the legislation were reduced to a bill and enacted today, that action would not produce housing or add to the supply of housing for 4 to 5 years. It would be at least 2 to 3 years of operational startup because the program by definition is new and, therefore, complex.

Right now there is absolutely no Federal investment going into the supply side of housing. Nothing that will add to the supply of affordable housing. If we are to continue, we need a transition before we get to the point of new legislation that may design a better system for us. We have to fund the tools that we have now in order that there be any activity and any chance to achieve affordable housing opportunities on some continuum.

That means, I think, funding basically the programs suggested in the task force report, which would put \$3 billion into the system now. That should be done, I think, in the context of planning for a doubling of the housing investment over the next 5 years; but planning for that, making that part of the budget resolution in the next Congress; and then second, giving HUD approximately \$100 million in order to carry out its preservation responsibilities and putting about 50,000 units of project-based subsidies into the system all next year so that there can be some continued activity.

Without that, I think we are going to see the machinery for delivery not only dry up but die. And I also think that we will lose the capacity to make the best use of the ideas that are contained in the concept papers.

Thank you.

[The complete prepared statement of Ms. Melkonian follows:]

Senator CRANSTON. Thank you very much.

We will now hear from Mr. Paul S. Grogan, president of the Local Initiatives Support Corporation, of New York.

**STATEMENT OF PAUL S. GROGAN, PRESIDENT, LOCAL
INITIATIVES SUPPORT COALITION, NEW YORK, NY**

Mr. GROGAN. I am particularly pleased to have a second opportunity to participate formally in this process because I was a member of the National Housing Task Force along with, I am happy to say, Mary Lee Widener and Marilyn Melkonian, and whatever I fail to say in my few minutes of oral testimony, the task force report may be consulted or my written testimony which I have submitted.

For those of us who have participated on numerous task forces and commissions over the years, with rather uneven results from those things, it is very pleasing to me, and I imagine to the other members of the task force, to see so clearly the evidence in the work that has gone on by your able staff and committee so far, that the task force report is really influencing your thinking. And that rewards our efforts, which were extensive.

I think I join Marilyn in saying that some of the best thinking that we have had for a while is contained in those reports.

I want to say that along with the terrible problem that is out there, the Federal Government and the Congress have a tremendous opportunity at this point because the brute force of the Federal cutbacks in housing in the last 7 or 8 years, while doing undeniable harm to many, have produced an unprecedented response in the housing arena at the State and local levels and have activated a staggering array of new involvements on the part of State and local government, the nonprofit sector, the private sector, labor unions, churches, and the list goes on.

This era has proven to be one of astonishing innovation and activity at the local level, and it is the task force's belief and my own belief that this activity provides lessons and insights and building blocks for a national housing policy of the future.

But all of these incipient efforts together cannot possibly produce the necessary response, with all of the vitality that they represent, with the Federal Government absent from the table.

So, the opportunity now is for the Federal Government to get on this moving train to accelerate its pace and to ensure that there will be response that is adequate to the problem.

But it is a very exciting time and certainly the opportunity is there to meet the goal of stretching Federal dollars to their utmost by building on this State and local and nonprofit response and eliciting the maximum response from all of those players that are out there trying to do something in a highly improvisational way about the problems that are confronting them in their own communities.

There is an important political dimension to all of this as well. As these parties are drawn into the housing arena for the first time through their own pragmatic efforts to do something, they quickly gain a new appreciation for the indispensable public role at all three levels of government.

So, there is a growing basis, substantively, programmatically, politically for the act that you are now putting together. And I urge you to take great advantage of this timely opportunity.

COMMUNITY DEVELOPMENT CORPORATIONS

My particular concern is with Community Development Corporations or CDC's. Like local neighborhood housing services, community development corporations are locally controlled, neighborhood-responsive development entities that are playing a much larger role in this Federal vacuum than I think was ever imagined, going from a handful in the late 1960's to thousands across the country today. They are now producing thousands of units of housing and are a leading element of this new wave of local housing initiatives.

It is essential that the National Affordable Housing Act recognize the activities and, even more importantly, the potential of these neighborhood organizations that have several unique qualities.

First of all, they have recognized that housing has to be part of a comprehensive neighborhood and community revitalization strategy, and they have an uncanny ability to avoid the glaring error of the past in seeing housing in isolation from communities. They have the commitment to long-term affordability that we are seeking.

They also undertake projects that profit-motivated developers would simply never undertake and have political and technical skills to assemble the multiple financing sources that are necessary.

My organization is set up to assist these organizations. We have assembled in 8 years over \$230 million of capital, all from the private sector, and we provide grants, loans, and equity investments to the CDC's. This year alone we will provide over \$60 million in direct financing to community development corporations.

That the concept papers and the staff work thus far recognize the extraordinary work of these organizations gives us cause for encouragement, and I hope that this continues to be a major theme.

I have made comments about the concept papers and the staff work and the themes that are emerging in the act in my longer testimony.

I will say that a chief concern of mine and of many other members of the task force is that the housing opportunity program be as simple and straightforward as possible and that the investment certificate, while we understand the concept of investment and support that, the current formulation of that may be excessively complicated and confusing. And we have made some suggestions about how it might be simplified.

Once again, I thank you for your efforts, and it is a pleasure to be here this morning.

[The complete prepared statement of Mr. Grogan follows:]

Statement of
MARILYN MELKONIAN

PRESIDENT
TELESIS CORPORATION

Before the
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

of the

U. S. SENATE

SEPTEMBER 22, 1988

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I want to thank the Chairman and the Committee for the opportunity to appear here today and give testimony on the direction of the nation's housing policy.

By way of background, I have had the opportunity to consider this issue over the last twenty years from different vantage points: from the Committee's point of view as a staff member to Senators Brooke and McIntyre; as general counsel to a non-profit housing developer; as counsel to private builders, owners and managers of housing; from the Executive Branch viewpoint as Deputy Assistant Secretary for Housing in the Carter Administration and presently, as a developer of affordable housing.

I was also privileged to serve as a member of the Rouse/Maxwell National Housing Task Force. The collective experience of the members on housing issues exceeded half a millennium. Added to the experience and work of thousands of people around the country who are involved in housing-- builders, bankers, public officials, scholars, tenant and community advocates --and the work of this Committee and its able staff, we have witnessed during the past year the most comprehensive review and study of national housing policy in half a century.

Out of this effort, which has involved so many people, has come a new affirmation of certain principles. Given the disparate views on the best way to deliver affordable housing, we must not lose sight of six points of consensus:

- As a nation, we believe that every American has a right to decent and affordable housing. That is our belief and our goal.
- As a people, we must act on that belief so that the goal is achieved
- We have come a long way in achieving that goal, but there is still a way to go.
- We have learned a great deal about how to accomplish this goal from the experiences of the housing partnership that was formed fifty years ago between the private, the public and the community sectors.
- Greater progress can come from the strengthening of that partnership, and that strengthening must begin now.
- Reaching the goal is well within our resources and our skills, and doing so will improve our society and increase our prosperity.

The Concept Papers for the National Affordable Housing Act reflect this consensus.

The papers raise all the key issues in the public debate over how best to reach this goal given the shape and dimension of the challenge we face in terms of need, resources and participants.

The need is alarming. The combination of inflation in housing costs, physical loss of lower priced housing stock, and conversion of rental housing coupled with increases in the number of households whose incomes did not, could not and can not keep up with the cost of housing, has created a housing crisis for ordinary people. People who can find jobs, but not affordable housing. Eight million American households, one out of every ten, earns under \$15,000 per year and pays in excess of 60% of its income for housing.

This single fact helps explain pervasive homelessness, the sacrifice which brings us all to the table. The Urban Institute has projected that this income group will grow by 5.7 million households by the year 2000. This housing need dictates that we preserve and increase the supply of housing that costs \$375 monthly and less.

Although the demand is great for affordable housing, it is what economists call "non-effective demand" -- the amount of money available to the consumer is not sufficient to attract a supplier. Either the bridge has to be raised or the water lowered. Purchasing power has to be increased through consumer subsidies or the cost of housing must be reduced through producer subsidies.

We must also keep in mind that the dimension of the problem has been masked by the build-out of federal funds committed in the late seventies which added almost a million units to the affordable housing supply in the last six to seven years. Consumer subsidies, made available on a short term basis, have been the only significant new federal investment over the past eight years. Producer subsidies have been eliminated, which means virtually no new supply in the near term.

The Concept Papers support both consumer and producer subsidies. So do I. The housing policy lesson of the last 20 years is that both are needed. Consumer housing subsidies give people a choice, they make use of existing affordable housing stock and they can be combined with production subsidies to make housing affordable.

But we also need to return to federal investment in the production of affordable housing. By production, I mean adding to the supply of long term affordable housing, through acquisition, renovation and new construction.

This approach has three clear advantages. First, investment in the production of housing creates fixed long-term assets called homes. Over time, debt will become equity, and wealth will be created. How that wealth is used and shared will determine whether we achieve a long term supply of affordable housing. We must address this issue now and be very clear about who will benefit from residual value before a new production effort is launched, if we are to avoid past mistakes. Second, investment in affordable housing is an investment in neighborhoods and neighborhood economies. Third, housing improvements, rehabilitation and new construction, create not only homes and jobs, but also visible evidence of progress in the community involving many participants.

The need and benefit are clear. What is the federal government willing to invest? The answer to this must first be found in the desire to solve the problem and secondly, in the willingness to make a long term commitment of resources. The final design of any program is dependent on that long term commitment because housing preservation and development is a long term activity and effective use of federal funds depends on consistency and predictability.

It is easier to make that commitment if housing is viewed as a basic need, just as food, health and national defense are basic needs.

The federal government spends about \$45 billion a year in food subsidies, \$26 billion a year to producers and about \$19 billion to consumers. Whatever the problems may be with this system, it works. Food is relatively cheap and abundantly available. That product-- food-- is valued in the GNP at \$76 billion. The federal investment represents almost 60% of that value, but what we value is the effective delivery of a life necessity through a public-private partnership.

Housing needs to be viewed in a similar light.

The federal government spends directly about \$10 billion on housing, about 1% of the federal budget. The GNP value of residential construction, not including land or financing, is \$190 billion. The federal expenditure is only 5% of that value. It is not enough.

You and only you can create a plan to increase that investment significantly so that we can create the public-private partnership that will result in the effective delivery of affordable housing. You are the managers, indeed the trustees, for over \$1 trillion in public funds, almost one quarter of the entire economy and you must make provision for this life necessity.

Many issues remain to be decided in the final design for new federal investment, and that debate will continue.

I would add these closing observations and recommendations:

Presently, there is no federal money available for preserving and producing affordable housing. A new production program, such as that suggested in the Concept Papers, if enacted today will take two to three years to make operational and it would be four to five years before new or substantially rehabilitated units are produced. A new program, by definition, is complex. Start-up will be difficult and during the interim many affordable housing opportunities will be lost. A transition is needed.

I recommend the following steps:

- Make the decision to double the federal investment in affordable housing from \$10 billion to \$20 billion over the next five years, from 1% to 2% of the federal budget.
- Enact a special allocation for affordable housing at the level recommended by the Task Force —\$3 billion—to go to states and localities with a matching component. This amount was chosen as the minimum investment that could have any impact on the problem and still have nationwide scope. The funds should be targeted to people earning under \$15,000 annually.
- The special allocation should include \$100 million to be used by HUD for low interest loans or grants to preserve existing federally assisted housing. Lacking funds, HUD's preservation efforts are at a standstill. The Flexible Subsidy Program is an ideal tool for this purpose.
- The special allocation should include 50,000 units of project based Section 8 with fifteen year authority so that it can be used in project underwriting in both preservation and production efforts.

These actions would build on what works, keep the delivery system alive and permit a pipeline of affordable housing projects and activities to develop now in anticipation of future federal funds.

It would also provide the time Congress will inevitably need to work with a new administration to design a better delivery system. I hope those deliberations will include two ideas not discussed in the Concept Papers.

We need to simplify and consolidate the tax treatment of multifamily housing, including cooperatives. Often times, the structuring of private investment in multifamily housing gets caught up in tax code principles and rules which are of general applicability or written in contemplation of activities other than housing, and the result is costly and counter-productive. The one program designed expressly for low income housing, the tax credit program is an important tool, but it can work more efficiently, with much lower transaction costs, if tax rules and affordable housing goals are reconciled.

I also believe we should give thought to requiring large capital collectors such as insurance companies and pension funds to invest a portion of their portfolios in affordable housing. In the past, these institutions invested funds on a long-term basis, but today the emphasis has shifted dramatically to short term profits. But who are the real investors in these institutions? Teachers, nurses, firemen — workers. Aren't they among the people who are burdened by this housing crunch? And wouldn't they, perhaps, welcome some regulation which required collectors of their capital to calm down and look to the long term?

There is nothing which so dramatically affects the affordability of housing than the price of money. A \$75,000 house financed over 30 years at 11% is affordable to a family earning about \$30,000 a year; at 7% it becomes affordable to a family earning about \$20,000. We must give more thought to creating an off-budget low cost capital pool for housing if we are to have a major impact on the affordable housing supply.

I realize that some of these suggestions may sound strange coming at the end of an era when the image of the free market and the "invisible hand" has been equated with the flag. But it is also an era in which there has been too much avoidance of social responsibility.

I congratulate the Committee and the staff for the enormous amount of effort that has brought us to the edge of a new era of responsibility toward meeting the housing needs of the American people. The bi-partisan collaboration of the Chairman and the ranking member, Senator D'Amato, on this important issue reminds us of the work accomplished by Senators Taft and Sparkman more than a generation ago. It is my hope that your efforts will mean as much for the well-being of our country.

STATEMENT OF PAUL S. GROGAN

Thank you, Mr. Chairman. My name is Paul S. Grogan. I am President of the Local Initiatives Support Corporation, or "LISC". I would like to express our support for the National Affordable Housing Act, to talk about the remarkable emergence of nonprofit community-based development corporations or "CDCs" as low- and moderate-income housing producers, and to suggest certain changes to improve the Act.

Background on LISC

The Local Initiatives Support Corporation (LISC) is a national, nonprofit organization that helps distressed low-income communities to rebuild, by providing financing and technical assistance to CDCs. LISC was created by the Ford Foundation in 1980 to attract private sector financial and technical resources for the rejuvenation of deteriorated communities and neighborhoods. Nearly 500 private corporations and foundations have contributed to LISC -- an extraordinary testament to the power of the CDC model to attract broad support from all segments of the community. With cumulative capital resources of over \$230 million, LISC is the largest private, nonprofit community development organization in the nation.

LISC does not develop projects itself. Instead, it invests these resources in housing and commercial development programs carried out by CDCs. Over 450 CDCs now have received program support from LISC. This help has led to the production of 15,000 low- and moderate-income housing units, as well as 4 million square feet of retail, office and industrial space. LISC support has leveraged additional investments of \$800 million from local banks and other private and public partners. This activity has occurred entirely in distressed low-income neighborhoods, entirely under CDC sponsorship, and almost entirely since federal funding was severely curtailed starting in 1981.

LISC's loans and grants are made with the expectation that CDCs will undertake projects as part of a focused, long-term community development program. To this end, LISC operates through a nationwide network of 30 local, regional and statewide "areas of concentration." Each area draws on local corporations and foundations for funding and continuing guidance, and receives matching support from LISC's national resources.

LISC also helps to create -- and in some cases implements -- citywide and national programs that facilitate CDCs' access to financial and technical resources and build their capacity to produce housing on a greater scale. LISC and its affiliates are:

- Raising equity investments from corporations nationwide based on federal tax credits for low- income housing projects. We have raised over \$60 million in less than two years based on the new low-income housing tax credit.
- Operating a secondary market for socially motivated lenders.
- Conducting citywide programs in several localities to build CDC capacity and produce low-income rental housing and ownership housing on a substantial scale.

The Emergence of CDCs

CDCs are nonprofit development corporations that are accountable to the communities in which they operate. According to recent estimates, about 3,000 CDCs now exist. Rehabilitation and construction of low-income housing are the primary activity of most CDCs. Some CDCs also develop commercial and industrial facilities, provide social services, such as job placement, and advocate on behalf of their constituents. The ultimate mission for many CDCs is to reduce poverty, stabilize distressed or declining neighborhoods, and gain economic power for their communities. Housing is thus not just an end in its own right, but also a tool for achieving this broader mission.

The active involvement of CDCs is not a new phenomenon, but only recently have CDCs become widespread housing producers. The first CDCs drew attention in the late 1960s and early 1970s as attractive development vehicles because of their commitment and sensitivity to community needs in selecting, structuring and implementing projects. In very real terms, CDCs have enabled low-income community residents to take direct control over whether and how development takes place in their neighborhoods. Absent CDC involvement, many low-income neighborhoods saw no development activity at all. CDCs have enabled low-income community residents to define the scope, design, and location of proposed ventures, as well as to participate in the political process through which many development decisions are made.

Federal funding cutbacks in the 1980s have focused more attention on CDCs, and their role in producing low-income housing has grown more prominent. Part of this prominence is attributable to the withdrawal of profit motivated developers as federal programs were cut back; indeed, CDCs are in many cities the only housing developers still working in low-income neighborhoods. But

Senator CRANSTON. Thank you very, very much.

I thank all of you for your testimony, and I want to again thank you, Paul and Marilyn and Mary, for your help also on the task force, which did some wonderful spadework and laid a fine foundation for what we are now trying to do.

I would like to ask a few questions but I understand there is a vote and I have to go to the floor now.

I will be back with you shortly.

Senator D'AMATO [presiding]. First of all, let me join the chairman in thanking particularly our three members who participated on the task force and also indicate to the panel that your testimony I find illuminating. And I certainly want to be supportive of the major themes that you suggested that we should be undertaking in specific legislation.

Mr. Grogan, let me say to you that I have had an opportunity to see firsthand the results of the work that you have loaned yourself to, and I would hate to think of how much more desperation there would be in the neighborhoods of New York and our city were it not for your undertaking.

I have seen firsthand in the Bushwick section and others how the local development corporations have readily brought about a spirit of pride and a fighting spirit to save a neighborhood and to involve people and to bring civility to the area. It makes a difference.

And that is what Mary and you were talking about, and I think that is what we are all seeking to bring about in whatever array of programs.

Mr. Wuenschel, I have to suggest to you that I would hope—because I grimaced somewhat when you talked about 30,000 public housing units. I mean, we are not in the world of reality when you think that that is going to be the outgrowth of the efforts that we are undertaking. It is not going to be there.

We are talking about—we're down to, I think, 10,000 units of senior citizen new construction, 202. And so, when we talk about wish list, I think it has to be more in the area of what do we believe we can really attain as opposed to what is the maximum.

I would also suggest that we had better work at retaining and making livable the public housing that we have now, that there is a great deal of that which is in deep trouble, Dallas, 1,700 units closed, and you can go into one after the other.

So, I understand where you're coming from, but by the same token, I think we have to be grounded in reality that there is not going to be, regardless of who the next President is, the kinds of resources that you have mentioned—\$21 billion.

I think that Marilyn Melkonian, when she said make sure you keep the pipeline that is open now open and maybe get an injection of some resources in there so that it doesn't close, that is absolutely important.

Otherwise, lest the patient be comatose—well, he may be comatose now, but he would be dead and we would never be able to resuscitate him.

Again, to be an advocate, fine. Would I like to have 30,000 units? Yes. Do I think it is practical or it is going to be there? No.

Mr. WUENSCHEL. Somehow, Senator, we managed to do that just 10 years ago.

Senator D'AMATO. Mr. Wuenschel, I am not going to argue with you. I am just going to give you an observation as a person who has been on the losing side of many votes as it relates to increasing funding activity in both the public housing area and in the other areas of housing activity.

I don't see there coming the kind of dollars and support from the Congress for that kind of massive spending. And I would also have to suggest to you—and I think that there are constructive alternatives to that approach that can leverage those dollars that can save existing neighborhoods, that can give people who are on the line of being thrown into homelessness an opportunity to avoid that.

I think we are at a crisis point that is much greater than what we have perceived. If you take a look—Mr. Grady indicated that he felt the problem as it related to the subsidized properties was the contracts running out and where you have about 1 million units nationwide, 1 million families, and he said he thought this was the greatest problem that we have.

Potentially, we are talking about hundreds and hundreds of thousands of additional families that are not going to be able to have decent housing. Just add that to the problem we have. How many more of them will become homeless?

We have got some—this is heavy, and I don't think we can wait until the time that you start—and was that your point, Marilyn, the time you start to plan? If we were to allocate the money and the time those 30,000 units go up, that is not going to take care of the 1 million families. Let's say 50 percent of them are going to find themselves, at least 50 percent of them, in deep, deep distress, and most of them are in the areas that can least afford that kind of situation where housing alternatives are at a minimum.

I have a vote in 5 minutes to go down—this is a wonderful vote. Motion to instruct the Sergeant-of-Arms to request the presence of absentee Senators. Do you want a waste of time? [Laughter.]

And if I don't go down and do it, then some jackass, when he is running against me, and D'Amato missed so many votes, you know. [Laughter.]

We will take a brief recess until I go and fulfill my duty here. [Laughter.]

[Recess.]

Senator CRANSTON. The hearing will please come back to order. I regret the delay caused by two votes, not one.

I did have some questions for Mr. Grogan, and I gather he has left. So I will submit them in writing to him.

Ms. Melkonian, as you know, the National Low Income Housing Preservation Commission, chaired by Henry Royce and Carla Hill, recommended that the Federal Government spend up to \$18 billion over the next 15 years to preserve the Nation's subsidized housing stock.

What is your opinion of that Commission report, its suggestion on preserving the stock and its estimate of the cost of doing so?

THOUGHTS ON COMMISSION REPORT

Ms. MELKONIAN. First, the general conclusion that the stock should be preserved I agree with. I don't know what it would ultimately cost to preserve that stock. We can be certain about some costs that would require extension of existing subsidies, but I think the best way to find out and to really get a handle on what preservation costs would be is to start to do it. The Emergency Housing Act of last year, really put the Congress on the field in the prepayment issue as a referee, saying hold up, let's take some time and evaluate what can be done to keep these units in the affordable housing supply.

That was a good step. I think it has to be funded. You cannot create this tool kit and not put some power behind it with funding.

I don't think you have to do a lot. The problem is we are losing every source of funding we have, including even things like flexible subsidy, which had been funded up to now out of excess rent payments.

So I believe the answer to the question can be found in actually trying to solve the problem.

Senator CRANSTON. In high cost places for housing is Telesis having a problem getting employees that they want to come because of the housing problem.

Ms. MELKONIAN. Certainly, Telesis, as a member of the metropolitan area, sees what is being experienced, and all over this area people are able to find jobs but not affordable homes. They are being pushed further and further away from their places of employment because of the rising cost of housing in communities like Alexandria and Washington, for example.

Senator CRANSTON. Do you have many employees in California?

Ms. MELKONIAN. The National Housing Trust works with people in California, yes.

Senator CRANSTON. I am talking about Telesis specifically. Does it have many—

Ms. MELKONIAN. Telesis does not.

Senator CRANSTON. For what areas of high cost housing does Telesis mainly employ people?

Ms. MELKONIAN. Our company is involved in producing affordable housing, and it is working to combine what Federal investment remains with private investment to create those opportunities. Without that there is simply no way to reach that market.

Senator CRANSTON. Thank you very much.

Mary, I am aware of the excellent achievements of the Neighborhood Housing Services of America, and I congratulate you on them. I expect the direct Federal support for NHSA activities will continue, and I would expect that in addition to that funding, local institutions related to NHSA would be strong competitors for HOP funding at the State and local level.

What are your thoughts on that subject?

COMPETITION FOR HOP FUNDING

Ms. WIDENER. Yes. I would expect so as well, but all of the local groups use both public dollars and private dollars. It is a public/

private partnership on both sides of the equation, are really necessary.

Senator CRANSTON. Thank you very much.

Mr. Wuenschel, I have a couple of questions for you. You call for making public housing available to a somewhat wider range of income. Current eligibility restrictions were imposed in response to strong arguments that not enough was going to the poorest people. We are likely to hear that argument ongoing.

What targeting restrictions do you favor? What have been the negative consequences of current income targeting restrictions, and have there been some positive consequences?

Mr. WUENSCHEL. I guess we offer that for a couple of reasons.

First, the caveat that we offer it in line with the flexibility suggested in the concept papers; that it be entirely voluntary, be up to the locale.

Second, since the imposition of the 50 percent of median and lower requirement, so often there are families deserving, needy families, just over that 50 percent of median in the 60 percent range who very desperately need housing, and it seems unfair. We have no other mechanism to serve them. It seems grossly unfair to do so, to leave them unserved.

Senator CRANSTON. Wherever you draw the line you will have somebody just over the line.

Mr. WUENSCHEL. Yes, but I think, given the fact that up until 1981 we served people at 80 percent of median and below in public housing—we changed in 1981—the expectation that we return to that for at least up to 25 percent of the units at local discretion, I think is not going to dilute the service delivery of the public housing authorities. At the same time it achieves, to a certain extent, a little broader base support for public housing and an assumption or an understanding that public housing serves more than welfare clients, if you will, which is an erroneous assumption.

Senator CRANSTON. You correctly note that the staff concept papers do not include many proposals related to public housing, but that is primarily because significant reforms of public housing were enacted just last year. I fully expect any new housing legislation will provide for reauthorization of public housing programs, including public housing production.

You state on page 7 of your testimony that a single block grant approach would hurt public housing production. Yesterday, however, witnesses from State and local governments objected to the 25 percent limitation on public housing which was recommended by the National Housing Task Force. They seemed to favor public housing.

In what ways do you feel that public housing would be a weak competitor for flexible grant funds?

Mr. WUENSCHEL. I think public housing is a weak competitor primarily, and almost exclusively, because of the population it serves. It is as simple as that. Public housing has traditionally, historically—it can be demonstrated—served the poorest of the poor.

The mandate of many other programs that receive government funds and assistance or tax exemption, or whatever, has not been to serve the poorest of the poor. When the society at large and our

CDCs have not simply been good survivors of federal subsidy cutbacks; their number and sophistication have actually multiplied in the 1980s.

At least four factors explain this growth.

- First, many communities realized they could no longer depend on profit-motivated developers to produce low-income housing, and with housing needs rising, have decided to take on the responsibility for developing housing themselves.
- Second, the ability of CDCs to work collaboratively with a wide range of public and private sector institutions has grown dramatically. CDCs have been earning their place at the negotiating table with mayors, bankers, and profit-motivated developers by contributing tenacity, a respected voice for their neighborhoods, and growing technical sophistication. These are very important ingredients in rebuilding communities.
- Third, as CDCs have become more widespread and successful, they have become far more visible. So as churches, social service agencies, neighborhood activists, city and state governments, local foundations, and others committed to providing housing have searched for new solutions, the CDC model has been much easier to identify, and has been perceived more often as effective.
- Fourth, the technical and financial support available to CDCs has grown substantially over the past several years, enabling more CDCs to get started and undertake more complex projects. The advent of nonprofit "intermediaries," such as LISC, the Enterprise Foundation, and the Neighborhood Reinvestment Corporation, has also helped to expand CDC resources.

The interest CDCs have sparked arises not solely from their increasing number and skills in a period of federal retrenchment. Indeed, a wide range of policy makers in both the public and private sectors are deciding that CDCs are worth encouraging because of the unique combination of resources they bring to low-income housing and community development.

- Their knowledge of community housing needs, markets, and opportunities and their ability to craft flexible and effective programs that respond to these circumstances.
- Their commitment to serving low-income households on a long-term basis. This commitment is becoming increasingly attractive to policy makers as existing HUD-

assisted low-income housing projects become threatened with defaults and conversions to upper-income use.

- Their ability to produce housing within the context of an overall neighborhood preservation strategy. Section 8 and some other traditional housing programs were operated with little regard for their impact on housing in the surrounding community. Yet, most existing low-income housing is unsubsidized and located within distressed communities. Stabilization of this stock should be an important element in an overall housing strategy. CDCs use new investments in housing to bolster their neighborhoods and the existing housing in them.
- Their willingness to undertake projects that profit-motivated developers consider too small, too risky, insufficiently profitable, and located in neighborhoods that are too distressed.
- Their political and technical skills in assembling multiple public, private, and charitable resources to make projects feasible and in marshalling community support.

Here are a few examples of what CDCs have accomplished.

- In New York City, the Mid-Bronx Desperadoes has developed over 1,100 low-income units and either manages or co-manages about 950 units in a seriously distressed area.
- In Boston, Inquilinos Boricuas en Accion (IBA) has built or rehabilitated over 800 units to preserve low-income housing opportunities in a neighborhood experiencing rapid gentrification.
- In Cleveland, the eight CDCs that comprise the Cleveland Housing Network have rehabilitated more than 400 housing units, most of them single-family homes for eventual ownership by poverty-level families. The homes are provided on a lease-purchase basis to families that could not qualify for bank financing.

Those of us who have witnessed first hand what CDCs have been able to achieve in such hard times believe they can succeed in every low-income community in America, if they are given the chance. This is why building the capacity of CDCs is so important, a point I will return to later.

CDCs and Public-Private Partnerships

The success that CDCs have achieved in developing affordable housing projects has led to the creation of several citywide housing partnership programs. These local housing partnerships are particularly promising because they offer a programmatic approach to neighborhood housing, in contrast with the ad-hoc, piecemeal approach that has too often characterized housing programs in this era of federal retrenchment. These partnerships assemble complete production systems, including a range of financial and technical support resources, to enable CDCs to produce and preserve low-income housing on a significant scale. As part of these partnerships: CDCs act as project developers, often in conjunction with for-profit builders; private lenders provide market-rate loans; state and local governments provide long-term subsidies; private corporations make tax-advantaged investments; and nonprofit intermediaries (such as LISC) attract foundation and corporate donations and provide seed capital and technical assistance. For example, local housing partnerships in Boston and Chicago are each producing over 500 units of low-income housing annually through CDCs. And, New York City is contributing about \$50 million in umbrella financing to a partnership program where LISC is working with 10 CDCs to rehabilitate 1,000 units of deteriorated housing for low-income residents.

Support for the National Affordable Housing Act

LISC strongly supports the Act because it would renew the federal government's commitment to housing and would strengthen and expand the work of CDCs and other nonprofit organizations. Although the growth and success of CDC housing has been remarkable, what CDCs can achieve is inevitably limited by the scarcity of federal support both for building their organizational capacity and in subsidizing their projects.

We all have learned that the low-income housing crisis is national in scope. We have learned that producing low-income housing requires a broad-based public-private-community partnership. And we have learned that whatever we do to make the process more cost-effective, subsidies will still be required to make the production of low-income housing financially feasible. But for most of this decade the federal government has been the missing partner -- and it is the only partner with the financial capacity to make low-income housing possible. The Act would be a major step forward in renewing the federal commitment to providing decent, affordable housing for all Americans and preserving their communities.

I would like to recommend several changes to the Act as described in the staff concept papers. Some of these changes reflect policy concerns; others are more technical in nature.

Housing Opportunity Partnerships (HOP)

In general, the HOP reflects many sound principles, but the investment certificate approach is unnecessarily complicated. In addition, some of the most important elements need to be worked out in more detail.

HOP Investment Certificates

I support the innovative concept of having the federal government support affordable housing primarily as an investment rather than through grants. However, the HOP investment certificate approach is too complicated.

For example, the staff concept papers say that certificates will not be treated as a debt of the issuing state/locality, but that states/localities would have to repurchase the certificates if the proceeds are used inappropriately (presumably, e.g., if low-income occupancy is not maintained). This repurchase obligation would probably create the same constitutional problem for states/localities as a direct debt. States and localities would probably have to treat this repayment obligation as a contingent liability, and many states/localities would be constitutionally prohibited from assuming such liabilities.

Moreover, the timing and extent of this repurchase obligation is unclear. Suppose a state/locality makes a loan to a rental project and the project stops serving low-income tenants. Would the state/locality be forced to repurchase the certificates immediately, even though it could take a substantial period to remedy the noncompliance or to foreclose on the loan to recover its funds? What would happen if the state/locality could not recover the full amount of its loan because the market value of the project is insufficient to cover the amount of the HOP loan and all senior financing? We are very concerned that states/localities would seek to minimize their financial exposure by favoring mixed-income projects in strong market areas over entirely low-income projects in distressed neighborhoods. We also doubt that states/localities would really be willing to make grants (instead of loans) under these rules, even though the intent of the program is to give them broad flexibility in this regard. One might envision states/localities using a substantial portion of their matching funds to capitalize contingency reserves to protect them, although this would be an inefficient use of matching funds.

Simplicity of design should be an important element of any new federal housing program. Providing low-income housing is inherently difficult. Putting even relatively straight-forward financing mechanisms into practice can quickly become a technically demanding and complicated process. The scarcity of subsidy sources

over the past several years has forced us to devise financing schemes that are much more complicated than we would like. This complexity has hurt the production of low-income housing in many ways. It has increased transaction costs, rendered small-scale projects uneconomic, drawn out already long lead times in planning and developing projects, imposed a substantial administrative burden on state/local government staffs, and prevented many private sector partners -- developers, lenders, equity investors, foundations, and neighborhood, religious and business leaders alike -- from participating as fully as they would like in solutions to America's severe low-income housing problems. Finally, we have found complexity in program design to be an obstacle in mobilizing political support for low-income housing.

We are concerned that the opportunity to restore a much needed measure of simplicity may be missed if the investment certificate approach is implemented as it is apparently now conceived. Further, putting such a system in place would probably take a long time, since complex regulations would have to be written and states/localities would have to learn a complicated new system and agree to support it with unprecedented (although entirely appropriate) matching funds. Achieving at least some positive results quickly will inevitably be an important test of any new federal housing program.

Fortunately, only some modification is needed to create a mechanism that would be more simple and straight-forward, make the federal government an investor in affordable housing, and at the same time build more directly on the capacity states/localities have already developed in administering the CDBG program. Instead of purchasing investment certificates, the HOME Corporation should capitalize "lines of credit" on behalf of states/localities. States/localities would draw down on these lines of credit with no charge of interest and would use the proceeds to assist projects. Each draw would be a secured obligation: states/localities could either assign the repayment obligation to the project or its sponsor, or assume the repayment obligation itself. States/localities would set the repayment schedule, and could defer all repayments perpetually as long as low-income use and certain other requirements are met. All repayments would go back into the line of credit for reuse by the same state/locality. The prospect of recycling the draw repayments would encourage states/localities to invest in sound projects but not expose them to possibly having to repay the federal government from their own resources. If a state/locality assumes a repayment obligation on behalf of a project and repayment is subsequently required, its line of credit balance could only be restored through subsequent draw repayments or additional capitalizations from federal appropriations.

Nonprofit set-aside

We strongly endorse the concept of a 10 percent set-aside for use by nonprofit housing organizations. However, we strongly urge that only private nonprofits -- and not public housing authorities or other governmental instrumentalities -- have access to this set-aside.

We also recommend that community-based organizations -- that is, those organizations that focus their activities on one or a few economically distressed target areas and demonstrate their responsiveness to the residents of these target areas -- have preferential access to the nonprofit set-aside. The experience of nonprofit housing development over the last 20 years points clearly in favor of such a policy.

Geographically focused low-income housing programs are more likely to succeed than scattering a few units in numerous neighborhoods throughout a city. Individual low-income housing projects are much more successful as part of a long-term community housing program, since each new project reinforces existing housing in the neighborhood and sets the stage for subsequent projects. Community-based housing strategies recognize the power of housing market dynamics and work to stabilize these markets.

Organizations that are responsive to community residents are also far more likely to succeed with housing than are other organizations. Community-based organizations plan their housing carefully because their constituents will have to live in and alongside that housing for a long time. The failure to consult community residents and respond to their concerns has often sparked community resistance or resulted in projects whose community-wide impact falls far short of their potential. Most nonprofit housing organizations began as grass-roots community initiatives because no one else was responding to community housing needs.

We would hesitate, however, to prescribe rigid statutory standards to determine whether an organization is community-based. The correct standard should be based on actual performance rather than on the composition of a governing board or other formal structures. There are many ways that organizations can reflect the needs of its community, and no single way is right for every community. Similarly, it would be either impossible or unreasonably burdensome to design a "responsiveness" test based on organizational structures that could not be manipulated by an organization that is more determined to qualify for funds than it is to respond to its community. Perhaps most important, we and other funders of community-based organizations have found it relatively easy to tell an organization that is truly community-based from one that is not. Accordingly, a performance standard should be administratively workable.

Income targeting

The concept paper is somewhat vague as to income targeting requirements. Nevertheless, we would recommend the following principles.

- Income targeting should be required for as long as HOP assistance is provided. This principle relates directly to the federal role as an investor in affordable housing.
- A single targeting standard should be applied on a program-wide basis for each state/locality, rather than on a project-by-project basis. This approach would give states/localities considerable flexibility in meeting appropriately rigorous targeting standards. However, if the Committee decides that it must impose project-by-project targeting, then a single targeting standard should apply to both rental and ownership projects. The federal policy objective should be to assist households meeting certain income standards. Having different income targeting standards for ownership and rental projects would be inconsistent with this principle.
- A two- or three-tier targeting approach should be applied to ensure that most of the funds benefit low-income households while accommodating moderate-income households too. An example of this targeting would be:

<u>% of funds targeted</u>	<u>to incomes at/below</u>	<u>% of median</u>
100%		100%
80%		80%
60%		60%

The targeting standards proposed by the National Housing Task Force for its HOP offer another good approach.

- Very low-income should be defined as 60 percent of median, with family size adjustments -- about \$15,000 for a two-person household. A lower standard would not be high enough to support any significant private mortgage financing, absent a large-scale project-based rent subsidy. The very poor would be able to afford the housing with rent credits. HOP-assisted rental units should be available to rental credit holders without discrimination. The 60 percent standard would also be consistent with low-income housing tax credit rules.
- Maximum rents under the HOP should not be based on the actual income of individual tenants, unless rent subsidies are provided. Otherwise, it will be impossible

to obtain private mortgage financing because project cash flows will be unpredictable. Instead, maximum rents should be based on income targeting standards (e.g., 30 percent of 60 percent of area median), adjusted for family size and utility allowances. This approach would also be consistent with low-income housing tax credit rules.

Use of proceeds

We recommend that: (1) acquisition of housing by community-based nonprofits be permitted if part of a concerted plan to preserve low-income housing opportunities; (2) light and moderate rehabilitation be permitted if part of a community-sponsored program to preserve low-income housing opportunities; and (3) states/localities be encouraged to use their matching funds to undertake activities to build the capacity of nonprofit housing providers.

State/local match

We recommend that the Committee adopt the same matching requirements recommended by the National Housing Task Force. Matching requirements could be phased in over the first few years of the program. In addition, some portion of the HOP funds should be available without a match to accommodate those localities that lack the fiscal capacity to provide the match.

State/local housing strategies

Strategies should include and reflect an analysis of the supply and demand pressures affecting low-income housing markets. This is important because low-income housing is provided (and will continue to be provided in the future) mostly through the private marketplace without federal assistance and is concentrated in low-income neighborhoods where special market pressures operate. Federal housing policy should recognize these market pressures, and programs should be designed to stabilize these markets. States/localities should also have to establish mechanisms to ensure that HOP funds are used in a manner that reflects the priorities of low-income community residents.

Other Support for State and Local Housing Strategies

We support the concept that the HOME Corporation should contract with outside entities to build the capacity of local low-income housing developers. However, we would urge two modifications. First, funds should also be made available to provide core operating support for community-based nonprofit developers because of the special benefits they bring to low-income housing. Second, the proposed limit on federal funding to 10

percent of the assistance provider's operating budget should be replaced by a requirement that assistance providers contribute nonfederal matching funds on a dollar-for-dollar basis for their capacity building activities. The former approach is inappropriate because it would favor organizations with large operating budgets not related to capacity building activities.

Permit me to explain why these capacity building activities are so important. As someone who has administered housing programs for a major city, I understand the desirability of focusing most of the Act's funding on developing specific projects. In many respects, the success of the Act will rest on whether it generates real housing and serves real people. And I would keep most of the funding focused on project development.

But over the long run, the Act can have a much more profound effect by building nonprofit organizations as effective engines for providing low-income housing and preserving low-income communities. I am confident that the capacity to use the proposed 10 percent set-aside of HOP funds already exists among nonprofit sponsors. But I am more concerned about broadening the nonprofit sector's development capacity over the long term: increasing the number of nonprofit housing developers; expanding the scale on which existing groups can produce; and strengthening the nonprofit housing sector in cities and towns where it is still just getting started. If we can broaden the nonprofit housing sector, I believe it can become not just one modest participant in providing low-income housing, but rather the central instrument of federal low-income housing production policy. Investment in building CDC capacity -- that is, in developing the developers themselves -- over the next few years is essential if this long-range goal is to be realized.

Low-Income Rental Assistance

The proposal does a good job of blending the rent certificate and voucher concepts. We have two recommendations regarding the rental credits.

First, we strongly endorse the concept that states/localities should be able to use the rental credits either as portable tenant-based assistance or as project-based assistance. However, five-year credits will be insufficient as a basis for project underwriting. Except for projects undertaken in very strong market areas, investors will be unwilling to make underwriting decisions on the assumption that additional federal rent subsidies will be available when the initial five-year subsidy period expires (and again when the second subsidy period expires). To rectify this problem, each state/locality should receive an annual allocation of rental credits worth a certain number of "credit-years." A state/locality with 100 "credit-years" of assistance could decide

for itself to assist 100 households for one year each, or five households for 20 years each, or some other combination.

Second, states/localities should be able to delegate tenant selection to nonprofit community-based housing providers, according to their own criteria. Careful tenant screening has been important to the successful operation of community-based housing.

Conclusion

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions.

elected officials are given the opportunity to dole out funds, I think they look at a broader spectrum than the poorest of the poor.

If in some way public housing is going to have to compete—which I think is a tragic mistake—with for-profit developers, State agencies, nonprofits, then those other entities should be made to take people off of the public housing authority's waiting list, and then I think you would see a very different change. But unless that were the case we cannot compete because people don't like our people, sad to say.

Senator CRANSTON. I want to correct one misunderstanding that appears to be in some people's minds, and that is the supposition that the staff papers propose to isolate or narrow public housing as housing only for those with special needs. There is no intention to do that, I assure all concerned.

The papers merely propose a special initiative within the public housing program to retrofit certain public housing properties to accommodate day care and other services for residents with small children.

Do you feel that amendments to current law along these lines are unnecessary? What changes would be helpful?

Mr. WUENSCHEL. I did apparently misread. I thought that public housing was being placed within a special needs category exclusively. In terms of special needs, there is a crying need to assist our residents who are frail elderly, our residents who are young mothers, struggling families in areas like literacy, job training, child care.

In fact, CLPHA has sponsored what we call Gateway legislation, H.R. 4899, that has been introduced by Representative Stokes in the House to provide that kind of assistance, and indeed, that kind of assistance can, I think, be enormously helpful because it recognizes those needs among the public housing population.

Senator CRANSTON. I think that concludes my questions at this point. I thank all of you very much for your help and information. I thank you a great deal.

Ms. WIDENER. Thank you.

Ms. MELKONIAN. Thank you.

Mr. WUENSCHEL. Thank you.

Senator CRANSTON. We now proceed to the next panel.

Harold Wilson, executive director, Housing Assistance Council.

John Simon, president, National Housing Conference.

Assemblyman David Schwartz, of the National Housing Institute of New Jersey, located in New Jersey.

And Richard Y. Nelson, executive director of the National Association of Housing and Redevelopment Officials.

And if we could start with Mr. Wilson.

I want to remind you of our 5-minute effort. So watch for the red light and stop as soon as you can.

**STATEMENT OF HAROLD O. WILSON, EXECUTIVE DIRECTOR,
HOUSING ASSISTANCE COUNCIL, INC., WASHINGTON, DC**

Mr. WILSON. Thank you very much, Senator Cranston. We have prepared written comments which we would like to have included in the record.

Senator CRANSTON. They will go in the record as if read.

Mr. WILSON. Given the time limitations, I would like to summarize our comments if I might. But I would like to begin by thanking you and Senator D'Amato for the initiative you took in creating the National Housing Task Force and in creating kind of the impetus that we are experiencing now toward development of housing programs to serve the rural poor in this country.

I also was a member of the National Housing Task Force, and I think the work we did there was extremely important. The National Housing Task Force—

Senator CRANSTON. We appreciate your help on that very much.

Mr. WILSON. Thank you.

I was the rural representative, as it were, on the task force, and we appreciate very much the recommendations that the task force made relative to housing in rural America.

I have to say that we were somewhat disappointed when we read the staff concept papers, however, and found that rural was not included in the comments of the staff.

We met with the staff and talked with them and understand that this is not representative of the committee's feelings about rural America, however, but—

Senator CRANSTON. No, it is not.

Mr. WILSON. But as a result, though, I would like to make three points in summary of my comments if I could.

RURAL AREAS ARE DIFFERENT

The first is that rural areas are in fact different from urban areas, and the second is, because they are different, they require solutions that are different from solutions offered for rural communities.

And then I would like to at the end offer a few suggestions for those solutions.

One of the primary ways in which rural areas are different, Mr. Chairman, as I am sure you are aware, is in capacity. There are few of the support networks that are often taken for granted in urban settings. Officers and local elected officials are often part time. There are no, or limited, entrepreneurs available to undertake housing development activities. Credit is limited, and where it is available it is often more expensive and the terms are shorter and the poor are not often organized in rural America to agitate and solve their own problems.

In addition, poverty is higher in rural America. Out of the 54 million rural Americans, 18 percent are poor, and this is a rate that is 50 percent higher than in urban areas.

In addition, the housing characteristics of the rural poor in America are also different. They tend to be home owners, for one thing, and not renters. Four-fifths of the households in rural America are home owners, and they also continue to live in substandard housing. Over 2 million units of substandard housing are occupied by families who are low income or classified as very low income, and this represents almost 40 percent of the Nation's housing need.

Rent overburden, however, is increasing, and this increase gives rural areas about 28 percent of the overall housing needed in our country among very low income and low income families.

Also, as you are well aware, in California there are varied needs for housing among special groups. Migrant farm workers, for instance, have particular housing needs. American Indians have particular housing needs. American Indians overwhelmingly live in substandard housing on reservations.

These problems, Mr. Chairman, require different kinds of solutions than those offered in urban areas. We feel they require a strong Federal presence with an outreach capacity, and the Farmers Home Administration has played this role. The programs are effective, and they are varied in the sense that a number of them are designed to serve the special population groups in rural communities, and in addition there is an outreach capacity with Farmers Home from their 2300 local and state offices around the country.

To ameliorate the need and to build on these—this network that is available through the Farmers Home Administration—I would like to offer a number of suggestions that our testimony outlines.

The first is that the Farmers Home Administration programs should be continued and their funding levels increased significantly. We would like to see the funding levels aimed back toward the 1979 level. That would help us meet the needs that we have expressed.

The 502 program, single family homeownership program, capacity should be expanded with a deferred loan capacity. Our initial look has indicated that a deferred loan capacity with Farmers Home would be less expensive than providing rental assistance to similar income levels.

And just very briefly in conclusion, Mr. Chairman, we would like to see the establishment of a capacity building program for rural areas, and to meet this most significant problem, the development of a workable program for migratory and for elderly farm workers.

And, in addition, there needs to be a significant legislative program put forth to save the units that the Farmers Home Administration has already developed. We have legislation for pre-1979 units. We need legislation now to take care of units that are currently being obligated.

I want to thank you again very much for your initiative in this housing endeavor, Mr. Chairman, and thank you for your concerns about rural America as well.

[The complete prepared statement of Mr. Wilson follows:]



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HAROLD O. WILSON
Executive Director

STATEMENT OF

HAROLD O. WILSON
EXECUTIVE DIRECTOR

THE HOUSING ASSISTANCE COUNCIL, INC.

BEFORE THE

SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

September 22, 1988

Mr. Chairman, Members of the committee, my name is Harold O. Wilson and I thank you very much for inviting the Housing Assistance Council to appear and testify on a new and expanded housing program.

The Housing Assistance Council (HAC) is a national nonprofit corporation supporting the development of rural low- and moderate-income housing nationwide. For 17 years HAC has been providing technical housing services, seed money loans from a revolving fund, housing program and policy analysis, training and information services to local and State governments, nonprofit and private organizations involved in the production of housing in rural and small town America. This has given us, we believe, a grasp of both the housing need in rural America and the policies and programs which are needed to meet that need. It has also given us a very real sense of what works and what does not work among various housing programs, and to some extent, why.

Poverty continues to be disproportionately rural. Nearly every persistently poor county - with more than a third of the residents poor in both 1970 and 1980 - is outside metropolitan areas. Moreover, rural poverty has grown from a low-water mark of 13.5% in 1978, to 18.3% from 1983 through 1985. While it has since dropped to 16.9% (due in part to the decline in farmers and thus, in farmer poverty), it is still far higher than the 12.5% metropolitan poverty rate. The Census Bureau in Money Income and Poverty Status in the United States: 1987, just published, reports an even greater disparity in the poverty rate of unrelated individuals: 19.0% in metro, 28.7% in non-metro and 38.3% in non-metro "poverty" areas (such as Appalachia and parts of the deep South).

The extraordinarily high level of rural poverty is of major concern to housing advocates, since the rural poor tend to live in areas where decent housing is scarce, and urban solutions are largely inapplicable. In many urban areas, the paramount housing need of the poor may be for rent supplements to provide access to available units. In contrast, the quality of existing housing in Appalachia, much of the deep South, the Ozarks, the Hispanic Southwest, Indian reservations, and many other rural areas is so inadequate that resources for housing development, in addition to rent and mortgage supplements, are essential to ensure decent, safe, and sanitary shelter for poverty-level households.

The Farmers Home Administration programs presently available to address those problems are remarkably successful within the relatively limited economic area in which they operate. In 1979 FmHA housing activity resulted in the production, major rehabilitation or repair and purchase of 132,000 units of low- and moderate income housing. There were an additional 23,000 units of rental assistance utilized, 3,000 migrant farmworker units produced, and 11,000 repair loans and grants made to elderly rural homeowners.

Those figures, Mr. Chairman, illustrate a program that works: 169,000 units of low- and moderate-income housing produced throughout rural America by local builders, developers and community-based nonprofits. RAC believes that the first priority for rural housing is to restore the FmHA programs to the level of 1979. The Congressional Research Service has estimated that the production of rural affordable housing is falling 75,000 units short of demand every year. (Housing Requirements in Rural Areas, January 1986). It seems clear that the reduced FmHA production, from 132,000 units in 1979 down to 42,000 units in 1987, is a major reason for the shortfall. Nor was that dramatic reduction offset by vouchers or rental assistance certificates which increased during that period only by 2,000 units.

But simply restoring the funding of existing FmHA programs will not address the housing problems of the millions of poverty-level families in rural areas. Existing FmHA programs are overwhelmingly loan programs with relatively shallow subsidies. For much of rural America these provide precisely what is needed: credit in regions with few private credit sources. In many areas of the country FmHA is not only the lender of last resort, it is the only home-mortgage lender in the county. But it is important to remember that the emphasis is on Lender.

What is needed is a rural housing agency with the emphasis on Housing. An agency which can respond appropriately to the housing needs of all rural families. FmHA can become that agency with relatively few changes. With 2,300 offices presently operating throughout the rural United States, it does not require any vast new federal structure. Those are local offices already responding to local needs. But FmHA needs additional program authority. The Housing Assistance Council has suggested four areas in which legislation should be enacted to deal with rural housing problems FmHA cannot now adequately address.

DEFERRED MORTGAGE PROGRAM

The first is a Section 502 rural homeownership program enhanced by a deferred mortgage option which would offer the opportunity of homeownership to families now thought too poor to own their own homes.

Given the opportunity, very low-income households are fully capable of assuming the responsibility of long-term loans. In its report "A Home of Our Own", the Housing Assistance Council found that among 894 FmHA borrower households tracked from 1981 to 1986, those with very-low incomes repaid their loans as conscientiously as did those with higher incomes. Most poverty-level borrowers were actually making payments ahead of schedule by the end of the period studied.

The limitation on the rural homeownership program's usefulness, therefore, is the degree to which very low-income households are given the opportunity to participate. Because that opportunity depends upon the hard cash payment requirements of the loan, it is this area which should be modified to increase the feasible income range of those qualified to buy an FmHA-financed house.

RAC suggests that such a program might work in the following fashion:

- (1) The borrower would receive the full amount of loan needed (100% financing).
- (2) The mortgage would be amortized at 1% for 38 years.
- (3) The borrower would make mortgage payments only to the level of affordability, considering:
 - (a) 20% of income for principal, interest, taxes and insurance (PITI) or,
 - (b) 30% of income for principal, interest, taxes insurance, utilities and maintenance (PITIUM).
- (4) The balance of the mortgage, depending upon borrower income, would be placed in deferred payment status. It would continue to draw interest but payment would only be required based on affordability, or at the end of 38 years, or disposition of the property, whichever is appropriate.
- (5) A mortgage deferral would be converted to payment status, based on affordability, in increments of \$1,000. Conversely, the same increments would be changed to deferred status when repayment ability would decrease.

We have done some relatively sophisticated cost analyses of the deferred mortgage program, comparing it to the Section 515 rental resource (with rental assistance) with rather startling results. Fifteen year run-outs on subsidy costs for the Section 502 borrower with a 50% deferral show a total subsidy cost of \$25,466 less than a resident family with identical income residing in a Section 515 unit with rental assistance.

Mr. Chairman, we believe that the deferred mortgage program we suggest will not only make homeownership possible for rural families at below poverty-level incomes, it will do so at a significantly lower cost than those rental programs so many people believe are the only "suitable" programs for poor people.

LOCAL CAPACITY-BUILDING

The treatment of sewage, recruitment and training of police officers, managing growth, drafting subdivision regulations, and preparing comprehensive plans are all issues as complex and controversial in a town of 1,000 as they are in the city of 100,000, yet the capacity for dealing with the problems is largely lacking. Small communities, counties and towns rarely have the development resources taken for granted in urban areas. Not only is credit scarce to non-existent, the talent and know-how for attracting it from other areas are also generally lacking. Most elected officials are part-timers and there are neither planners, architects, engineers, developers, experienced entrepreneurs or networks of business, professional, financial and political leaders who tend to be the movers and shakers in larger areas. In short, in the competition for housing resources, from any source, public or private, small towns and rural areas are at an enormous disadvantage.

There have been countless studies and demonstrations over the past 30 years on rural capacity-building, but with the exception of three or four years of Community Action Programs in the late 1960s there has been no sustained federal effort to put such a program in place. It is time to do so. We believe a joint approach by FmHA and community-based development organizations can provide the information, training, technical assistance and, most important, the organizational development which can produce a lasting capability, and this must be attempted. Housing is the ideal element around which to build such a program.

New York State has provided modest administrative funding in cities and in rural areas through a system of "preservation companies", nonprofit groups devoted to the rehabilitation and development of new low- and moderate-income housing. In addition the state has wisely created a number of other programs, including a rental assistance program, to make the Farmers Home Administration rural rental program more useable, and special programs such as the Housing Trust Fund, Rural Areas Revitalization Program (RARP), Affordable Housing Program, and Homeless Housing Assistance Program. New York's dedication to affordable housing development is steadily paying dividends for the citizens of the state and deserves serious consideration as a federal model for capacity-building.

The basic elements have long since been demonstrated. What is now required is the will to do it.

DECENT SHELTER FOR MIGRANT FARMWORKERS

Virtually no one disputes the fact that migrant and seasonal farmworkers are the most poorly paid and ill-housed group of workers in the nation. Federal programs which should assist

farmworkers are inadequate in both design and funding. It was a major disappointment that the staff concept papers did not even mention migrants in the "special needs" category. Tens of thousands of the workers who cultivate and harvest our table crops live in shacks without showers or plumbing, when they are lucky; and in ditches and culverts, holes in the ground, abandoned vehicles and packing cases when they are not. Without showers to wash off the pesticide residue, or cooking facilities, or a roof to ward off the not always gentle rain, these are the men, women and children who truly have "special needs". A study done nearly ten years ago for Farmers Home Administration (National Farmworker Housing Study, InterAmerica Research Associates, Washington, D.C. 1980) found an unmet need, nationally, for 800,000 units of migrant shelter. Between 1980 and 1987 FmHA financed 5,721 units of farmworker housing, primarily for year-around workers, under the authority of its Section 514/516 program. That level of nonresponse to need is a national disgrace.

What is needed is a new migrant farmworker shelter program which will provide safe and decent shelter, as well as cooking and sanitary facilities for migrant farmworkers and their families while they are working away from their permanent homes. HAC believes such a program should be authorized by the Congress, planned and developed on a state-by-state basis by state governments, financed by a dedicated federal trust fund, and operated by local governments and/or local nonprofits.

Such a program should also contain a similar mechanism for financing permanent housing for elderly, disabled and retired farmworkers. After years of exposure to the rigors of stoop labor, insecticides and miserable living conditions, they find themselves too old or ill to work, but are without even minimum savings or anything more than SSI payments.

New housing programs for migrant and retired farmworkers will begin to meet the need for decent shelter and, belatedly, to address the neglect of the past half-century.

A SPECIAL PROGRAM FOR UNDERSERVED AREAS

Some of the poorest, most isolated and smallest communities in the nation have received virtually no assistance of any kind from Farmers Home Administration, or from any other agency. Those with almost totally black or Hispanic populations seem almost certainly to be suffering from the effects of discrimination. In other instances the lack of program activity may be due simply to isolation and very small populations. On occasion it is due to the total absence of necessary infrastructure. These are the very communities which most need assistance, and do not get it.

To remedy this situation, a national program should be established which will target Section 502 and Section 515 resources, along with grant funds from a capacity-building program, to be used to assist these underserved communities. In such a program the Secretary would designate a specified number of counties - no more than 50 - which would receive capacity-building grants to assist communities meeting the "underserved" criteria: A high incidence of poverty; high incidence of substandard housing; high concentrations of minority residents; and populations of fewer than 5,500.

The capacity-building grants would be used to help prepare applicants for housing, and, in some cases, infrastructure related to housing. Grantees would then be permitted to draw on the national set-aside to insure speedy processing of housing applications.

HOMEOWNERSHIP AFFORDABILITY

Let me turn now, Mr. Chairman to some specifics of the Congressional staff concept papers. As I indicated earlier there is sound evidence that poverty-level families in rural areas can and do handle homeownership with as much skill and pride as middle-income families, given the opportunity. But there is little in the staff paper, save the possibility of using an IRA or Mortgage Revenue Bonds, which even hints at a homeownership resource for rural families.

The nature and tenure of rural and small-town employment make the presence of 401(k) plans rare to non-existent. The suggested changes in FHA might help if there were enough rural lenders and if they used FHA but there aren't and they don't. Unfortunately, there is a paucity of rural lenders, and where they do exist the FHA program is not widely used. A 1985 study by HAC showed that only 4.2 percent of new homes and 5.6 percent of existing homes insured under Section 203 by FHA in 1984 were in rural areas. To the extent that Mortgage Revenue Bond financing is handled through local banks, that source of mortgage financing is also denied to many rural areas. In short, we see little of benefit for rural residents in the Homeownership Affordability paper.

We believe some changes might make these programs more acceptable to rural lenders, and should be included. A higher return, through fees or rates, to small rural lenders would help persuade them to use FHA insurance. A better information, education and outreach program about FHA insurance, conducted by HUD and directed not only to potential homebuyers but to realtors, builders, bankers and developers should be undertaken; and Mortgage Revenue Bond authority should be made continent upon an equitable distribution of the bond proceeds throughout all the state.

But this effort would only expand homeownership opportunities to moderate- and middle-income families. As A Home of Our Own shows, many low-income families are perfectly capable of handling homeownership and in many cases at a lower subsidized cost than rental assistance. FmHA remains the only source of assistance for these families, but if it is to provide the same opportunity for homeownership to low-income families as the concept paper suggests for moderate-income families, the program authority must be expanded. The Deferred Mortgage Program which I discussed earlier, and which the National Housing Task Force has also recommended, should be included as a part of the "Homeownership Affordability" concept paper. It would bring homeownership within the grasp of families well below the poverty level.

PRESERVATION OF AFFORDABLE HOUSING

We agree most emphatically with the general statement in the staff papers and with the statement of national policy on affordable housing retention. Some additional comments need to be made, however.

The National Affordable Housing Act, when finally passed, will contain a good many programs and provisions that most of the disparate housing interests will agree are desirable. As a tactical matter we urge that new legislation dealing with the prepayment problem be included in that Act, rather than sending it out as an orphan to face the formidable opposition it is certain to arouse.

There is no apparent recognition in the paper that at least part of the FmHA prepayment problem may have been solved. If that is so (we will know in a very few months), we must still deal with the matter of use restrictions on projects currently being financed. The 20-year use restrictions now imposed on Section 515 projects insure a prepayment problem in the years 2008 and beyond. It is far preferable to address that problem now, rather than mediate it 20 years down the line.

INVESTMENT IN STATE AND LOCAL HOUSING STRATEGIES

We believe the HOME Corporation to be an excellent idea, well conceived in its scope of operation and in the incentive and latitude it offers state and local government. However, we see a serious weakness which has been acknowledged but inadequately addressed as far as rural areas are concerned. Rural and small town areas are effectively excluded from the formula distribution of 40 percent of the HOP funds by their small size, and as a practical matter from the 20 percent competitive grants by their lack of sophisticated grantmanship. The matching share in both instances might be enough alone to discourage applications.

The remaining 40 percent to be administered by the state offers the only rural hope of HOP, and that is a fragile hope unless there is a rural set-aside. Unfortunately states, with limited funds, spend those funds where the return is greatest. Rural areas rarely get state or even those federal funds administered by states commensurate with their needs. That is the reason we have insisted for years and still insist that there must be rural set-asides and rural allocations based on incidence (percentage) of poverty and poor housing rather than population size. In no other way do rural areas get a "fair share". There is little argument about rural need, but to get that "fair share" there must be the capacity-building program discussed earlier. Without it, the local "majority" will meet its own need first, with little or no funding directed to the rural minority.

We support the HOME and HOP concepts, but we insist that there be an earmarking of HOP funds for rural areas. Even those states which wish to do more in nonmetro areas are under great pressure to supplement entitlement area grants and to undertake larger and easier projects. They need the assistance a rural set-aside would provide.

We note again that the National Housing Task Force specifically "contemplates that HOP funds administered at the state level on behalf of rural areas will be used, both separately and together with the 502 program to improve homeownership affordability and to upgrade substandard housing." One of the Task Force analyses suggests that an appropriate set-aside of HOP funds be directed to small towns and rural areas. That is necessary because the Farmers Home Administration assistance is principally in the form of loans with a relatively shallow subsidy, and because FmHA does not provide service in all of non-metro America. We have earlier recommended to you that the rural set-aside be developed after calculating total subsidies made available in Title V programs and rural needs data. It is those calculations which support the 25-30 percent set-aside figure.

Finally, we applaud the sentence on capacity-building for "low-income" housing developers in communities and rural areas where it is weak or absent. We would very much like to see that sentence expanded into a specific program, with funding, as a charter for rural communities and nonprofits of the kind I discussed earlier.

LOW-INCOME RENTAL ASSISTANCE

During the late 1970s HUD and FmHA operated a cooperative scheme whereby 10,000 Section 8 certificates were allocated to FmHA for use in Section 515 rental units. That allocation, along

with the FmHA Rural Rental Assistance Program, resulted in an equitable division of rental assistance between urban and rural areas. We believe such an allocation should again be made with the rental credits, along with a change in the "mode of assistance" provision. As set forth in the paper it would limit project-based rental assistance to units built or acquired with HOP funds. Section 515 units should also be eligible.

HOUSING FOR NATIVE AMERICANS

Indian families living on reservations and in other Indian areas are the worst housed Americans in this country. The Bureau of Indian Affairs (BIA) surveyed federally recognized Indian tribes in FY 1987 and found that of 185,596 households, over 50%, or 92,970 Indian families, needed either new, replacement or substantially rehabilitated houses. These figures do not include Indians living off, but near reservations, and those living in other traditional Indian areas.

Census data gathered in 1980 shows an American Indian population of 1.423 million. Overall, 6.4% of all Americans live in substandard housing. American Indians occupying such housing numbered 397,252, or 23.3%. The states with the largest Indian populations include: California, Oklahoma, Arizona, New Mexico, North Carolina, Alaska, Washington, South Dakota, Texas and Montana. The top ten states with the largest Indian populations also have the highest numbers of substandard housing, with the exception of Texas. A sample of the percentage of Indians living in substandard housing by state is informative: Arizona, 61.8%; Alaska, 55.2%; New Mexico, 54.4%; North Dakota, 38.5%.

The ten largest Indian reservations and the percentage of substandard housing on each are as follows:

Reservation	Percent Substandard Housing
1. Navajo Reservation, Arizona, N. Mexico, Utah	79.0
2. Pine Ridge Reservation, South Dakota	59.5
3. Gila River Reservation, Arizona	51.6
4. Papago Reservation, Arizona	76.3
5. Fort Apache Reservation, Arizona	57.5
6. Hopi Reservation, Arizona	77.6
7. Zuni Pueblo, New Mexico	50.7
8. San Carlos Reservation, Arizona	68.9
9. Rosebud Reservation, South Dakota	35.6
10. Blackfeet Reservation, Montana	30.2

Visitors to Indian reservations often comment that comparable housing conditions are found only in third world nations.

Senator CRANSTON. Thank you very, very much.

I would like to turn to Senator Chafee. Would you like to make any remarks at this point, Senator?

Senator CHAFEE. No, Mr. Chairman. Like everybody else, we have two hearings going on at once.

Senator CRANSTON. Yes.

Senator CHAFEE. I might put in a statement later on.

Senator CRANSTON. Do you want to ask any questions at this point?

Senator CHAFEE. No. I will read over the material, and I appreciate your recognition.

Senator CRANSTON. Thank you.

I would like to turn to you, Mr. Simon.

STATEMENT OF JOHN SIMON, PRESIDENT, NATIONAL HOUSING CONFERENCE, INC., WASHINGTON, DC

Mr. SIMON. I want to congratulate you and your committee for having shed some light on the housing problems in this country, and not only do we see the end of a very dark tunnel by what you have done, but we believe that you have begun to demolish the tunnel.

We have submitted a written statement, and I don't want to repeat what we said in that statement.

We are concerned about the fact that these concept papers, which have to be implemented, will cost money. We think that some place, somewhere soon the Congress and whatever administration is in office will have to deal with the finding of dollars. We don't think that this program will work unless substantial funds are made available.

MONEY MUST BE FOUND

I heard Senator D'Amato say that whoever is in office will not be able to find the money. Our position is that if you want homeownership, preservation, rental housing assistance, special needs housing, to preserve the public housing program, you are going to have to come up with the dollars.

It is the position of the National Housing Conference that the administration and the Congress that have found \$17 to \$19 billion thus far to bail out the savings and loans—through implicit guarantees—and soon will have to find more money, and found money—deserving as it may be—to bail out the farmers in the drought situation, should not have any problem finding the money to put your program through the Congress and to put it into effect. Without that, you will have built a beautiful instrument but, like the rockets we are sending to the moon these days or wherever they are going, it will not get off the ground.

Our position is, very strongly, you are going to have to come to grips with finding the money to fund this, to accomplish this.

In connection with the cooperation with State and local agencies, we think that is great. We hope it can be done. We want to be sure, however, that some future Congress or administration does not take the position, yes, it is a great idea, let the States and cities do it and we will sit by and supervise.

The States and cities, increasingly, do not have the money to do it. It is the Federal Government that collects most of our taxes, and the Federal Government has an obligation to provide housing. While we believe in cooperation between States and cities, we are very concerned that this will be in effect a cop-out to transfer the responsibility for affordable housing for low and moderate income families to localities.

We are very interested in and we commend you on your efforts on preservation. We know it is a tough thing to do, to protect both tenants and the contractual rights of owners. There, too, you have to find the money to make it attractive to owners to maintain the housing stock.

We also want to add that, in connection with public housing, you must find the money to maintain that stock, to rehabilitate it, to take care of the deferred maintenance, to modernize it, so that that \$80 billion investment does not go down the drain, as it has in some cases already.

Senator D'Amato alluded to it, about the demolition of 1,700 units in Dallas, which we think is unconscionable.

We have some concern about establishing another bureaucracy to administer the programs. We agree that HUD has not done that which we think it should have done. As I said once before, HUD stands for "Help Us Delay," but we hope that a future HUD will be more efficient and be able to do the things that they have not done in the past, rather than having to create another agency. I agree with the previous speaker, we don't have the time to develop a new program, a new bureaucracy. In the meantime, things will get worse and we will have a serious problem in this country.

Last, I want to say, even though my comments may appear negative, you, this subcommittee, with your program and the task force, have done more to bring housing to the attention of the national conscience than anything else. It is up to those of us who are in the field—if I may presumptuously say to you—and the Congress to make sure that it stays that way. You must also try to provide the funding, as you have for so many other programs.

I want to thank you. I hope there will be follow-up meetings. We will have comments on the implementation if we are asked to do so, and I want to also tell you that we have had great cooperation from Don Campbell and we enjoy working with him, and I think if he takes some of our advice we will have a great program. Thank you. [Laughter.]

[The complete prepared statement of Mr. Simon follows:]

Poverty data are similar. When one compares state population and poverty data to the American Indian figures, some significant patterns emerge. The highest percentages of American Indians below the poverty level are found in South Dakota, Arizona, New Mexico and North Dakota. The poverty levels for Indians are far higher than the poverty percentages for the total population (which includes Indians) for these states: South Dakota 47.5% vs. 16.9%, Arizona 44.0% vs. 13.2%, New Mexico 40.2% vs. 17.6%, and North Dakota 39.6% vs. 12.6%. In fact, in every state but one (Arkansas) the Indian population has a higher percentage of poverty than the general population.

While major housing assistance programs were developed in the 1930s and 1940s for the underserved in the rest of the nation, Indian housing needs were ignored. There are a number of different housing opportunities available to low- and moderate-income Americans; however, these programs are either underfunded or otherwise inadequate to meet the need. But for American Indians and Alaska Natives, home mortgages are not available at reasonable terms, rental units cannot be found, and assistance to the lowest income families has been inadequate to deal with increasing need.

Complicating the severe lack of adequate housing are unique social, economic, cultural, and legal factors affecting Indian people. These include: the federally protected status of Indian land, which prohibits its alienation, encumbrance or taxation; and is perceived as a security risk by lenders and developers; the cultural and geographical diversity of the various Indian tribes, and the importance of a land base to their continued existence; the lack of stable economies and the high incidence of poverty among Indians; and the multiplicity of federal agencies presently involved in the delivery of Indian housing.

Since the mid 1960s, over 60,000 units have been constructed under the HUD Indian housing program, and some 63,000 homes have been rehabilitated with BIA funds. Despite this, current needs are not being met. Appropriations levels during the past 7 years--averaging just over 2,200 units annually--have not kept pace with escalating needs. Just this year, FY'89 HUD Indian housing appropriations were reduced to 1,591 units, far below what the needs warrant. The results of these policies are serious overcrowding, social dysfunction, worsening health conditions, and family disintegration. Native peoples in increasing numbers are once again being forced to leave their traditional homelands to seek housing elsewhere.

MEETING THE NEEDS

There must be a continuing federal commitment to adequately house this nation's indigenous peoples. The widespread and extreme poverty on Indian reservations, the trust status of

Indian lands, and the failure or inapplicability of state programs, private sector development or any other sources of assistance make a continued federal presence mandatory.

Indians have historically dealt with the federal government to the exclusion of the several states. In 1983, President Reagan reaffirmed the federal-Indian "government-to-government" relationship, which is political in nature, and is founded upon a series of treaties, federal legislation and court decisions. Any realignment of federal Indian housing programs must acknowledge this special status.

The following elements are essential for an effective Indian housing program:

- o it must stand alone, as a separate and distinct program within any existing or subsequently-created entity;
- o it must function by means of a national office, with regional delivery mechanisms outside any state-specific systems;
- o it must provide a streamlined development process which minimizes excessive interagency divisions of responsibility;
- o it must allow Native American governments to participate fully in the development process; and
- o most importantly, it must build houses.

Under the current HUD program, total development costs per unit average \$79,848, including water and sewer. The most recent BIA Consolidated Housing Inventory shows 92,970 reservation-based Indian families in need of new or substantially rehabilitated homes. Of that number 53,090 are new construction, and 39,880 require substantial rehabilitation at an average cost of \$10,000 per unit.

Without adequate appropriations to fill the development pipeline, the housing needs of Indian people will never be met. At minimum, 8,000 units per year must be constructed until the gap is closed. That gap now widens each year. Administrative and management support to efficiently produce and subsequently manage those units must be provided. A stagnated pipeline is extremely detrimental, particularly when development timelines are long, and the number of units presently produced is minimal. Concurrently, establishment of fair market rents, a reduction of the 30% rule, or an alternate means of reducing charges to more accurately reflect present housing quality must be implemented.

Tribes and individual Indians should, at the same time, retain eligibility for all other current and proposed federal housing and community development programs for which they would otherwise qualify. Outreach and education programs designed to assist them in accessing these programs should begin. In particular, the FmHA housing programs are an underutilized resource.

A FINAL COMMENT

Few of the changes and new programs suggested for the National Affordable Housing Act will mean anything without significant additional funding. It need not all come immediately, but there must be some assurance that it is available as the program begins to expand to meet the need. We believe that so long as the programs the committee staff propose necessarily depend upon concurrent actions by the Finance Committee, and ultimately the Appropriations Committee, staff should also consider ways to finance the federal share of the program. Committee support for a capital budget would certainly be a step in the right direction. The Comptroller General and other GAO officials have testified repeatedly before committees in both Senate and House on the desirability of such a change. It would, among other things, permit investment in housing to compete more equitably with the purchase of gasoline and paper clips. It would lead to significantly different changes in priorities and spending.

Again, let me say we are grateful for this opportunity to testify.



NATIONAL HOUSING CONFERENCE, INC. (C)

**STATEMENT OF
NATIONAL HOUSING CONFERENCE
ON
AFFORDABLE HOUSING ACT PROPOSALS
BEFORE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE**

September 22, 1988

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JULIETTE B. MADISON
Executive Director

Mr. Chairman and Members of the Subcommittee:

My name is John Simon and I appear here today as President of the National Housing Conference. I appreciate this opportunity to present to the Subcommittee NHC's recommendations regarding the development of a new national housing policy and proposed enactment of an Affordable Housing Act in the next Congress.

Since 1931, NHC has worked for the development of national housing policies and programs designed to make decent housing available, affordable and accessible to all our citizens. During those 50-some years, major strides toward meeting that goal have been made, with the help of, initially, the Federal Government and, more recently, many State and local governments.

Unfortunately, the forward progress has not been uniform, as competing demands for scarce resources, or, even sometimes, a belief that the nation's housing problems have about been solved or that they are not the business of government, have too often resulted in slowing progress or even retrogressions. We have just been through one such period, where the pace of meeting the nation's unquestioned housing needs has slowed dramatically.

The actions taken by this Subcommittee have demonstrated a clear intent to reverse the unfortunate and frequently harmful retrogressions of the past several years. For this we applaud you and urge as strongly as we can that you

continue your efforts to place housing once again high on the nation's priority list.

As part of this effort, the creation of the National Housing Task Force was encouraged. In its Report last spring, the Task Force suggested valuable directions for future housing policy, recognized the need for new production of lower income housing, and called for a renewed commitment by the Federal Government to be a leader in finding solutions to the nation's housing problems.

We applaud the Task Force for not only stating the need and suggesting ways to address it, but also for setting the goal of fit and affordable housing being available for all by the year 2000. NHC pledges its support to make that goal a reality.

Earlier this year NHC prepared a side-by-side comparison between the recommendations of the National Housing Task Force and those contained in NHC's Legislative Policy adopted at our Annual Meeting on March 14, 1988. As you will note from the attached copy of that comparison, there are many similarities between the two, including the recognition that we must undertake once again significant activities in order to increase the supply of housing available on a long-term basis and at an affordable cost to the low and moderate income.

A similar recognition is contained in the Concept Papers prepared last month by the staff of the Subcommittee. The lack of a significant housing production program has probably been the greatest deficiency in the nation's efforts in recent years to deal with the housing needs of the low and moderate income.

We commend the Subcommittee staff for their excellent job in putting together the comprehensive program contained in these Concept Papers. We commend the Subcommittee for facilitating and encouraging the development of the staff proposals. We urge that the Subcommittee move forward both this year, and next year when a new administration will have taken office, to make a reality by the year 2000 of the goal of affordable housing for all Americans.

I should like now to address some of the specific proposals contained in the Concept Papers. Our comments touch upon the principal features contained in these papers and are not intended to represent a detailed commentary.

HOMEOWNERSHIP

We endorse the proposal to expand the opportunity for homeownership, especially for first-time buyers. Homeownership has always been an American goal. Unfortunately, it has become less

and less attainable in the last several years. The proposals to ease the task of meeting the downpayment requirements for a home purchase are most laudable, especially those that would permit an individual to save for the downpayment through his or her retirement account.

We urge that this approach be made as flexible as possible, so that employers can assist their employees through this means and that the ability of employees to use their retirement accounts for downpayment purposes will not be adversely affected by a change of jobs. We also urge that employers be encouraged to develop other means of assisting their employees to become homeowners.

RENTAL HOUSING

NHC strongly support efforts to preserve the present supply of low and moderate income housing. This supply includes not only those housing units contained in 221(d)(3) BMIR and 236 projects with mortgages becoming eligible for prepayment over the next several years, but also the even larger supply of housing whose Section 8 contracts will expire over the next decade. NHC set up its own task force to look at this preservation problem and this task force's report was approved by our Board of Directors at its meeting in June. A copy of this report has previously been provided to the Subcommittee. We commend it to your attention.

The NHC report urges that present tenants of these projects be protected from displacement through adequate notice and the provision of continued housing assistance, either in their present units or in new units if necessary. At the same time, NHC believes that the contract rights of project owners to prepay their mortgages should be respected. However, we agree with the others who have looked into this problem that many owners will not seek to prepay their mortgages, if reasonable incentives are provided to encourage them to maintain their projects as low and moderate income housing until the termination of the project's mortgage term.

We urge the Congress to take quick action to make a reality of the incentives authorized in the Housing and Community Development Act of 1987. Incentives to be viable must be funded, and we doubt seriously that tenant protection that depends upon the abrogation of long-standing contract rights will stand up to challenge. We also urge that adequate funds be provided to renew all present Section 8 contracts as they expire.

Probably the centerpiece of the Concept Papers, as it was a principal feature in the report of the National Housing Task Force, is the proposal for a Housing Opportunities Partnership ("HOP") program to encourage the development of additional low and moderate

income housing through assistance to State and local housing agencies. The HOP program would be administered by a new Government National HOME Corporation to be located within HUD and the HOME Corporation would be empowered not only to provide money directly to participating State and local agencies, but also to guarantee securities backed by pools of mortgages financing affordable rental housing.

While the Concept Papers do not quantify the amount of assistance that would be provided annually nor, therefore, the number of units that could be expected to be assisted, we presume the intent is that the dollars and number of units involved would represent a significant increase over the niggardly assistance of the past several years. Even then, however, we question whether the substantial changes in delivery systems and the resultant disruptions that are always present when a brand-new, complicated program is put in place are necessary.

Is it necessary to undertake the development of such a broad-scale new approach to producing low and moderate income housing? We question the need to establish, for this purpose as well as several other purposes dealt with in the Concept Papers, a brand new infrastructure on top of that which is already in place. Should scarce resources of both time and money be expended in establishing a whole new bureaucracy which in many cases will do nothing more than parallel that which is already in place?

Much of what is proposed for the HOME Corporation to undertake is already administered by existing entities within HUD. For instance, the whole new secondary market operation proposed to be administered by the HOME Corporation seems to differ little from what GNMA is already doing or has the experience, and in many instances authority, to do.

Furthermore, we see no need to recast or extensively revise the mortgage insurance authorities of the Federal Housing Administration. The long-term familiarity of lenders and developers with the operation of the present FHA multifamily programs, both direct insurance and coinsurance, should not be tossed away. Rather, we should build upon that which is already working and improve it, not create new programs for the sake of newness.

We support strong reliance upon State and local housing agencies as a major means of meeting the nation's low and moderate income housing needs, as is called for by the Concept Papers. However, we question whether sole or principal reliance should be placed upon those agencies. While many states have active, effective housing agencies, many do not. And while there are many good, effective local agencies, they serve a relatively small percentage of the nation's localities.

Also, not infrequently, local agencies have neither the desire nor the will to proceed with the provision of additional assisted housing in any significant amounts, where that housing is perceived as unacceptable or undesirable by the local citizenry. And, even where there is an effective State housing agency, resistance by the local government to further assisted housing in many instances will result in the State agency going elsewhere.

It is for these reasons that NHC, when it put together its recommendations to this Subcommittee last year, called for the creation of a two-pronged, assisted housing delivery system. One of these prongs called for assistance to State and local housing agencies, including the provision of incentive grants to those which put special efforts or funds into the provision of low and moderate income housing under their programs.

The other prong, however, called for the provision of assistance directly to those who will develop and own the housing, whether they be nonprofit, cooperative, public or private profit-motivated entities. We believe strongly that such a program is essential, if low and moderate income persons in all parts of the country are to have a reasonably equal opportunity to have their housing needs met.

Such a program of direct assistance should not be considered as in competition with State and local housing agencies, but as complementary to the activities of those agencies. And direct assistance is absolutely necessary in those communities where for any one of several reasons State and/or local government cannot, or chooses not to, function.

We also caution against setbacks of, or limitations to, certain percentages of whatever assistance is provided, such as the proposed minimum ten percent for nonprofit entities and the proposed twenty-five percent cap on assistance for publicly owned housing. In addition, we urge that assistance for the provision of low and moderate income housing through moderate rehabilitation be continued, so long as it results in additional, standard housing becoming available for low and moderate income occupancy.

We should also like to caution about making local sharing or matching a requirement. Many communities might find it difficult to meet such requirements, while some others might use it as an excuse for not producing any further low and moderate income housing. In either case, those who need the housing will suffer the most.

The National Housing Conference has always been concerned that Federal assistance for low and moderate income housing not rely too heavily upon certificates or vouchers or other assistance that is

not tied directly, and for a substantial period of time, to a particular unit or project. We have especially been concerned about the housing voucher program, which can easily become a snare and a delusion for the unwary low income when no control is placed upon rents that can be charged a voucher holder and no assurance is provided that increased rental charges will be covered. We urge that the Subcommittee, in continuing any form of rent certificate program, write into the law adequate protection to assure that such certificates are allocated principally to areas where there is an adequate supply of existing, available housing.

We understand that it is inherent in the Concept Papers that the proposed "rental credits" could be affixed to specific projects. To be assured that a unit is available for a predetermined period of time and not subject to the vagaries of the rental market, we urge the Subcommittee to direct that project-based rental credits be mandated in market areas with relatively tight vacancy situations.

We are concerned, however, about the persons for whom these rental credits will be available, whether in project-based or tenant-based circumstances. We should like to reiterate NHC's long-standing recommendation that housing assistance be available to anyone whose income does not exceed 80 percent of the median and that a tenant not be required to pay more than 25 percent of his or her income in order to obtain housing assistance.

The proposed limitation of rental assistance to those whose incomes do not exceed 50 percent of the median does not fit into the concept of providing affordable housing for all who need it. Many whose incomes are between 50 percent and 80 percent of the median, and in many cases even those with income above 80 percent of the median, are unable to find decent, affordable housing.

It is not clear whether assistance under the HOP Program will, in fact, assure that those between 50 percent and 80 percent of the median will be provided affordable housing. Certainly, only requiring that rents not exceed the HUD-established fair market rent for an area will not provide that assurance. Furthermore, we hope that the proposed legislation will return the Federal housing programs to a posture of encouraging economic integration and discouraging the ghettoization that is inherent in limiting assistance to those whose incomes do not exceed 50 percent of the median.

Moreover, for the proposed rental credits to be effective in inducing the production and financing of housing to be available for the low and moderate income on a long-term basis, this assistance will need to be committed for periods substantially longer than the proposed five years. And limiting the requirement to provide low-income housing to no more than five years, unless

the five-year term is renewed, will not suffice in most cases to meet the underwriting standards imposed by most lenders.

We understand the budget concerns that are inherent in the proposed five-year limit, but we doubt that much housing will be produced unless some means is found to resolve the artificial constraints of the Federal budgetary process. We urge the Subcommittee to initiate an effort with the Budget Committee to devise a more reasonable budget counting process for long-term housing assistance. Unless and until the budget counting of housing assistance becomes more reasonably equivalent to that used for Federal programs with long-term commitments, we will never be able to come anywhere near meeting the nation's low and moderate income housing needs.

While we support a closer integration of HUD housing assistance programs with housing assistance provided under the welfare programs of HHS, we urge that any tie-in of the HUD programs to welfare reform result in additional assistance under the HUD programs and not a reduction in what would otherwise be provided under those HUD programs. We also urge that any efforts in this area be coordinated with those proposed in the Concept Paper entitled "Supportive Housing for Families."

SUPPORTIVE HOUSING

We commend the staff's proposal to recast the means by which housing for the elderly is financed under the Section 202 program. The elimination of the double counting of budget authority, that now occurs through the provision of a direct loan repayable at a fairly high interest rate with assistance under the Section 8 program, will result in more housing being provided per dollar of budget authority than is now possible.

The replacement concept of a forgivable loan, with further assistance only for operating costs where needed, was included in the Housing and Community Development Act of 1987 for handicapped housing. We applaud its expansion, as a concept long-supported by NHC and as an example of the type of imaginative and innovative thinking that must take place in order to remove the housing programs from the artificial straight-jacket of the Budget Act.

On the other hand, we question the desirability of mandating establishment of a new HUD office of Assistant Secretary for Supportive Housing. Much of what would be carried out in this office is already carried out by existing departmental operations. These activities will continue to be carried out by those other operations or, alternatively, need to be duplicated in the new Assistant Secretary's office.

We understand the desire to place strong emphasis on the need to serve adequately the housing needs of the elderly, the handicapped and those families with young children endeavoring to pull themselves out of poverty. We feel, however, that those needs can be adequately served within the present departmental structure, if there is the will and the resources within the department to carry out the activities mandated of it.

The real problem with HUD in recent years has been that it has functioned with directions from OMB and the White House to end or drastically reduce the assisted housing programs. If that type of direction continues, no number of new offices or assistant secretaryships will result in any better serving of the nation's housing needs. However, if there once again is a commitment in the Executive Branch to meeting those housing needs, the imposition of new structures will only result in delaying the restoration of active, functioning housing assistance programs in HUD.

We have only touched on the highlights of the proposals contained in the Concept Papers. We would hope to be able to work with the staff, as it moves forward in developing detailed legislative language in connection with an Affordable Housing Act for consideration in the next Congress. We would also be glad to provide detailed comments with respect to our proposals, those of the staff and those of others in conjunction with that legislative process.

In conclusion, I should like to reiterate our compliments to the Subcommittee and its staff for going forward with this important work. We support your efforts and want to express NHC's willingness to work with you in achieving our common goal of decent and affordable housing for every American.

SIDE-BY-SIDE COMPARISON OF THE NATIONAL HOUSING TASK FORCE REPORT
AND NHC'S LEGISLATIVE POLICY

1. Production	National Housing Task Force	NHC				
1. 2 pronged approach	Housing Opportunity Program (HOP) * 4 of funds to states for state housing programs and distribution to localities <u>Requirement:</u> matching funds * 4 of funds directly to local govt's based on a needs formula	Assistance provided directly from Fed Govt to those who will develop & own the housing, based on needs of locality AND to state & local housing agencies in conjunction with their housing efforts. Priority for state & local funds could, perhaps, be based on the amount of funds contributed by agency or locality.				
2. Distribution Requirements	For Non-matching funds: 80% of all \$ housing 50% of median Last 20% can be used up to 80% of median For matching funds: 40% of housing \$ at 50% of median Up to 80% of \$ can be used up to 80% Last 20% of \$ up to 120% of median	Expend 50% of median limitation to 80%.				
3. Other Requirements	10% of \$ set aside for nonprofit orgs. Up to 25% of HOP funds available for PHOs	not specified				
4. Amount Level	\$ 3 billion annually should add 150,000 to 200,000 affordable units annually	not specified "significant annual additions" For FY89, 200,000 add'l units under existing & any new programs				
5. Recommended term of low income use	"long-range commitment to increasing the supply of long-term, low income housing through HOP."	With respect to new housing programs housing should be preserved for 40-50 years for low-income use.				
6. Eligible uses of funds	Construction, rehab, repair & acquisition of rental and ownership housing, including specially designed housing and services for special need groups such as the homeless & the frail elderly.	Mix between new construction, substantial rehab, and certificates where there is an adequate supply existing housing.				
7. Form of Aid	grants, loans, interest rate subsidies, operating support and others that are to be developed.	not specified				
8. Replaced Programs	HOP would eliminate the following: Rental Rehab, HOAG, Sec. 8 Mod Rehab, Sec 235 Homeownership Assistance, Sec 312 Rehab loans. Total cost: \$300 million	NHC specifically supports the continuation of: <table><tr><td>Rental Rehab</td><td>HOAG</td></tr><tr><td>Sec. 8 Mod Rehab</td><td>Sec. 312</td></tr></table>	Rental Rehab	HOAG	Sec. 8 Mod Rehab	Sec. 312
Rental Rehab	HOAG					
Sec. 8 Mod Rehab	Sec. 312					
9. Retained Programs	Sec. 202 Public Housing Sec. 8 Existing Housing	NHC specifically supports all 3 of these housing programs.				

New Sources		
II. of Capital	National Housing Task Force	NHC
1. Benevolent Loan Funds	The task force recommends the creation of benevolent loan funds, community development banks and the Housing Opportunity Corp. of America (HOCA) to finance new housing delivery system.	These are not covered in NHC's policy.

III. Preservation		
1. The Federal Role	Federal Govt must renew project-based & tenant based subsidy contracts. Honor owner's contract rights Fed Govt must use direct assistance & preservation oriented tax policy to retain assisted stock.	Project-based rental assistance subsidies should be authorized & funded by Congress. NHC position is similar. NHC position is similar
2. HOP's Role	State & local govt should use HOP to preserve unsubsidized housing.	not mentioned in NHC

IV. Public Housing		
1. Modernization	Fed Govt must commit to completing modernization of public housing inventory	full funding of CIAP to assure preservation of existing public housing stock
2. HUD's role	HUD must address most seriously troubled projects immediately. Congress should fund i. modernization ii. rental assistance for the displaced iii. replacing lost units	NHC supports Congressional funding for the 3 programs at left.
3. Housing Management	Fed Govt with local govt must strengthen public housing management	not mentioned in NHC policy
4. Sales to Tenants	HUD & local PHAs should explore special situations for homeownership & sales to tenants	Any proposed public housing sale must be accompanied by a one-to-one replacement.
5. Production	Fed Govt should allow PHAs to produce housing, within budgetary restraints.	NHC supports continued production, incl. 20,000 new units in FY83.

V. Tax Policy	National Housing Task Force	NHC
1. Tax Policy & Low Income Housing	Fed Govt should use tax policy to support low income housing. Tax benefits should be restricted to rental projects serving lower income households	Effective tax incentives need to be restored for all types of lower income housing.
2. Tax-Exempt Financing	Fed Govt should expand availability of tax-exempt financing for lower income rental housing, though targetting established by 1986 Act for tax-exempt bonds & low income housing tax credit should remain. 1986 technical restrictions on bonds should be eased.	Not covered in NHC policy.
3. Depreciation	Low income housing should be given 20 year straight line depreciation, i.e. rental housing.	Not mentioned in NHC policy
4. Tax Credit	Fed Govt should improve and extend low income housing tax credit.	NHC agrees, urging approval of low income housing tax credit amendment passed by House in 1987.
5. Nonprofits	Fed Govt should provide incentives for donation of assisted housing to nonprofits, tenant cooperatives & public agencies.	not specified

VI. Gap Between Housing Cost & Income		
1. Rental Assistance	Fed Govt should commit to an adequate rental assistance program. Recommend 100,000 units over Admin's request for 200,000 total.	NHC supports Section 8 Certificates where there is an adequate supply of existing housing & supports add'l subsidies for preservation purposes
2. Rent Burden	A more flexible definition of reasonable rent burden should be adopted e.g. a sliding scale based on family size.	NHC supports legislation to restore 25% rent-income ratio applicable to tenants receiving public housing, Sec. 8, rent supplement, 236 & FmHA assistance.
3. Conditions for Assistance	Rental assistance should be tied to federal housing quality standards.	not mentioned in NHC policy

VII. Home-ownership		
1. Mortgage Insurance	Fed Govt should increase access to FHA mortgage insurance and VA program by expanding availability of ARMs, raising mortgage limits, reducing FHA down payments & update VA.	NHC supports the maintenance & strengthening of FHA. The other programs are not mentioned.

2. Downpayment	1st time home buyers should be allowed to use IRA and other self-funded benefit plan monies for downpayment.	not covered in NHC policy
3. Mortgage Revenue Bonds	Fed Govt should continue MRB programs for low & moderate income home buyers.	NHC urges that authority to issue tax-exempt MRBs be extended without any reduction in State volume caps.
4. Employer Assisted Housing	Congress should explore employer sponsored & assisted housing.	not mentioned in NHC policy.

VIII. Housing Finance System

1. Add'l Costs & Burdens	Congress should support the current housing finance system and not impose on it add'l costs or other burdens.	NHC agrees.
2. Community Reinvestment Act	Banks & thrift regulators should consider CRA as a powerful incentive to encourage investment in low-income housing & community development.	not mentioned in NHC policy.

IX. Fair Housing

1. Enforcement	Fed Govt must increase enforcement of fair housing laws, including funding for Fair Housing Initiative Program & the use of administrative law judges.	NHC supports strengthened enforcers including admin. law judges.
2. Families with children	Discrimination against families with children should be prohibited.	NHC agrees.

X. Housing in Rural America

1. Existing Programs	Current Fed rural housing programs should be used, consistent with budget priorities, to improve housing conditions in rural areas.	NHC supports full funding for FmHA programs.
2. Nonprofits	HOCA & FmHA should help build capacity of rural nonprofit development organizations	While not specifically mentioned, NHC's principles support more nonprofit involvement.
3. Homeownership	Provide deeper subsidies under Sec. 502 rural homeownership program for very low income.	not mentioned by NHC.

Senator CRANSTON. Thank you very much. We will pay very careful attention to your advice, I assure you, and I thank you for those kind words about the efforts that we are all making on this front. We will make sure that housing is a major, major issue from now on until we have dealt with the problem.

Mr. Schwartz.

STATEMENT OF DAVID C. SCHWARTZ, ASSEMBLYMAN; CHAIRMAN, NATIONAL HOUSING INSTITUTE, NEW BRUNSWICK, NJ

Mr. SCHWARTZ. I would begin my testimony as all witnesses really have. I want to join them in commending and congratulating you on your outstanding leadership on this issue in the Senate and in the Nation, as in the formation of the National Housing Task Force.

Senator CRANSTON. Thank you.

Mr. SCHWARTZ. I will limit myself to two important concepts which are mentioned or implied in the staff concept papers, but which I think need substantial further development before they can be optimally included in your intention to pass landmark legislation: Those are employer-assisted housing and homelessness prevention.

In recent months perhaps the concept implied or stated in your concept papers which has received the most immediate attention is the concept of employer-assisted housing.

EMPLOYER-ASSISTED HOUSING

As you may know, articles on employer-assisted housing have appeared, in the last 10 weeks, in *Fortune Magazine*, the *Journal of Housing*, the *Harvard Business Review*, *Housing Economics*, *Business and Society*, *Los Angeles Times*, the *Oakland Tribune*, the *Christian Science Monitor*, the *Boston Herald*, the *Hartford Courier*, the *Philadelphia Enquirer*—and many other journals and newspapers. The concept of employer-assisted housing has really begun to come to the fore in the media's attention.

In addition, we have identified—the National Housing Institute has identified—more than a hundred major companies that are going ahead and doing employer-assisted housing. We have begun to see a trickle of affordability enhancement by the private sector, both by corporate employers and institutional employers such as colleges and hospitals.

What we need in this area to bring billions of dollars of private sector capital into affordable housing are five modest Federal law changes, four of which I will assert, and our evidence suggests, are revenue neutral but which will have the capacity to truly incentivize—it is a terrible phrase—but to truly provide effective incentives to the private sector to go ahead and make housing affordable for their workers.

In talking about this, I want to suggest the modest law changes I am advocating here would not interfere with current efforts to market low income housing, tax credits for corporations. They would not interfere with efforts to get housing bonds marketed effectively to corporately controlled investment funds, and they would not interfere with efforts to get philanthropic contributions

from corporations. These are incentives which are uniquely associated with personnel benefits.

The first law change I recommend is that, wherever in Federal law the word "personnel benefits" is mentioned, that housing assistance—both mortgage assistance, mortgage guarantees, and rental assistance—be specifically authorized. It will not cost the Federal Government any money, but it will end the business of having corporate lawyers debating with each other "where does it say I can do this."

This is crucial in the area of cafeteria style benefits where Congress has made it illegal. You know and I know that one-third of American workers get no benefit whatever from their health insurance. Companies pay it—they get a little discount on experience ratings—but the company is paying the health benefits, but many workers get no benefit at all because their spouse is covered.

If the company wants to go ahead and offer a cafeteria style plan so that the employer can substitute some other benefit for the health benefit they are not getting, they can't. The company cannot currently give a housing benefit.

Why? Because it is illegal. Because you have only got five areas, five benefits that are eligible.

Well, a company should be able to give housing assistance if it wants to, if its workers want it, if its union wants to bargain for it. Why not?

So the first recommendation, Senator, I am recommending is that you do what in New Jersey we call an "et seq. authorization." Every place in the law where it says "personnel benefits" should go ahead and allow housing assistance to be defined as acceptable.

The second thing is I urge you to go ahead and take a look at the ESOP laws, your Employee Stock Ownership Plans. The companies that are doing ESOP's—there are 8,000 firms with 1,300,000 employees—are allowed to go forward now and do limited mortgage commitments. I recommend that you take a look at that area, and again it will not cost the Federal Government any money to allow a marginally greater percentage of ESOP firm holdings and ESOP trust holdings to be in mortgage commitments.

There are three other housing assistance and employee assistance programs that I advocate in my testimony, which I would ask that you allow to be entered into the record.

Let me talk about homelessness prevention. In four States in this country—and I am most familiar with New Jersey, but Maryland, Pennsylvania, Massachusetts also have programs—we have a program of loans and grants for people who will be evicted into the cold streets and alleys of this country except for these repayable loans and grants.

In New Jersey in the last 4 years 25,000 families have been helped to avoid eviction into homelessness at a cost that is 2 to 3 times cheaper than shelters and 10 to 30 times cheaper than welfare motels.

I read to you the concept papers on homelessness. They are strong, they are compassionate. I know that what is intended is good things for people who are down on their luck. I don't see a clear, unmistakable, specific commitment to the kind of loan and

grants program, prevention program that the National Housing Institute advocates.

I strongly urge upon you, I think it would be the best use of existing dollars.

If necessary—and I don't—I will close with this—if necessary, I would even suggest a diversion from some existing titles as the McKinney Act, which I think maybe we are not doing the right thing or not completely doing the right thing, into a prevention effort.

I know it is cost effective. It is the most compassionate as well as cost effective.

I do thank you very much for your attention.

[The complete prepared statement of Mr. Schwartz follows:]

Good morning, Mr. Chairman and members of the committee. I am deeply honored by your invitation to speak to you, and with you, on the subjects of housing policy and of the proposed "National Affordable Housing Act". I appreciate the opportunity to discuss, with this distinguished subcommittee, the real and pressing need, and for some Americans, the desperate need -- for affordable housing. I hope that my testimony will contribute to your important work, work which I hope you will define as the design of a new housing policy for America. I will be addressing my remarks to particular areas of housing policy, which deserve extensive review and inclusion in any new national housing initiative-- employer assisted housing and the prevention of homelessness. They are both cost effective approaches to maintaining affordable housing options for millions of Americans.

EMPLOYER ASSISTED HOUSING

I will identify in this morning's testimony five (5) specific and modest changes in Federal law which have the potential to attract billions of dollars in new private sector funds to affordable housing activities, annually. Each of these proposed law changes would facilitate the adoption of employer-assisted housing programs by U. S. corporations as a personnel benefit to low and moderate-income workers. Four of the proposals are entirely revenue-neutral: none of the proposals would interfere with current efforts to market low income housing tax credits to corporations, to market housing bonds to corporately controlled investment funds or to attract philanthropic dollars from corporations to affordable housing activities.

Employer-Assisted Housing Proposals

1. Federal laws defining and regulating personnel benefits should specifically authorize housing benefits as permissible corporate activities. This would provide greater encouragement/comfort to corporate personnel and legal departments interested in adopting employer-assisted housing programs, without spending a penny of federal funds and without negative impact on federal tax revenues.
2. Housing assistance programs should be treated as tax advantaged personnel benefits, as several other forms of personnel benefits are now treated. Labor law could also allow housing benefits to be explicitly bargained for in labor-management collective bargaining agreements. This proposal need not have negative effects on federal tax revenues, if the total quantum of tax-free benefits were capped and employees given a more complete choice among alternative benefits (which should be done anyway given the large and growing problem of overlapping spousal benefit coverage). In effect

creating a benefit program of cost-capped, tax-exempt (for the employee) benefits. Even if housing assistance were simply added to the short list of tax-free employee benefits, however, the impact on federal revenues would be modest, and housing would seem as basic to the welfare of workers as are current tax-free benefits.

3. Federal law clarification should be one explicitly permitting Employee Stock Ownership Plans (ESOPs) to invest a portion of their assets in employee housing instruments. ESOPs are probably capable of investing a small portion of their assets in employee housing under existing law, but don't, because federal law is silent on the subject. Clarification should also be combined with legislation to allow a higher percentage of the trust's assets to be invested in employee mortgages and other housing finance vehicles. In fact Congress could authorize the creation of an EHOP, or Employee Home Ownership Plan, on the same tax-advantaged basis as current ESOPs are. EHOPs would specifically be authorized to invest in employee housing instruments.

4. A National Employer-Assisted Housing Demonstration project should be included in Federal housing authorization and appropriation bills, next year, so that matching Federal funds could be granted to state and community housing programs--encouraging more employers to contribute to (or participate in) these programs.

This change would be useful because most companies now participate in community housing activities through corporate philanthropic giving programs. A matching fund would be constructive in encouraging corporate gifts, would better leverage Federal housing expenditures, and bring a new source of capital to low cost housing projects.

Homeownership for the working poor could be made feasible by combining several forms of employer assisted housing with other types of subsidy in this demonstration.

5. Federal tax codes should permit employees to make a one-time tax-free withdrawal of funds from their defined or deferred benefit plans, if (and only if) these funds were used as a downpayment on a first and primary residence. A tax recapture on these withdrawn funds at the time of house-sale or retirement would make this proposal revenue-neutral to the Federal treasury.

Federal officials ought to move quickly to adopt these, or similar, federal law modifications in order to reduce disincentives (and provide cost-effective encouragement) for corporate housing activities. Business leaders ought to begin to demand these and related changes, in the direction of a business-oriented housing policy for America.

Why These Proposals Will Succeed in Attracting
Private-Sector Funds to Affordable Housing Activities

More than 50 major U.S. employers have begun to take direct action to increase the supply of affordable housing, either by establishing housing assistance as a personnel benefit for their workers or by contributing to community housing programs (generally without specifically reserving units for their employees). Colgate Palmolive probably has the largest employee housing benefit program, a mortgage assistance plan open to any worker employed for 6 months or longer. Colgate subsidizes the mortgage loan costs on owner occupied one and two family units, condominiums, home improvements and home refinancings. The University of Pennsylvania has been operating a successful program for the past decade in which any permanent U of P employee can receive free 100% insurance on mortgage loans made by Philadelphia lenders to an eligible participant, on a home in the targetted neighborhoods around the campus. This mortgage guarantee lowers or eliminates downpayment requirements, fees and private mortgage insurance costs. Hawaii Bell, The Brown Company of New Hampshire, Dupont Inc. (Seaford, Delaware), Children's Hospital in Boston, Tuft's New England Medical Center, Princeton University -- to name a few of more than 50 substantial employers -- have been reported as adopting cost-effective employer-assisted housing programs or plans.

In 20 or more major United States cities, the business community is contributing millions of dollars to stimulate the construction of affordable housing, in partnership with foundations, nonprofit housing corporations and various governmental units (local and state agencies). Such partnerships now exist, for example, in Baltimore, Boston, Chicago, Cleveland, Denver, Hartford, Madison, Los Angeles, Newark, New York City, Reno, St. Paul (Minnesota), San Francisco and White Plains (N.Y.).

San Francisco and Boston are good examples. In San Francisco, top executives from 18 national and Bay area companies have worked with the nonprofit Bridge Corporation to capitalize a development fund for the construction of affordable housing which, in only four years, has already produced 1,466 housing units valued at over \$80 million (with over 40% of the units available at below market levels, in both rental and homeowner developments). The Boston Housing Partnership has attracted funds from leading business and banking leaders in that city to rehabilitate the better part of 700 affordable housing units in 50 apartment buildings across the city.

More generally, there seem to be seven (7) basic forms of employer-assisted housing programs adopted in the United States. Five of them are homeownership assistance efforts: mortgage guarantee and insurance programs; group mortgage origination

plans; mortgage interest rate subsidies; downpayment loans (usually 2nd mortgage, deferred payment loans) and shared-equity loans. Two forms of employer-assisted housing can be used either for homeownership or rental units: corporate construction subsidies; corporate donations to community housing programs (with or without explicit reservation of units for employees). In Western Europe and Japan, where corporations are more substantial providers of housing capital, other forms exist which may ultimately be of interest to American companies.

Additional Reasons for Corporate Housing Involvement

I believe many more firms should and soon will get involved in helping their workers meet housing needs. These firms will do so, in part, because:

- a) both management and workers are increasingly dissatisfied with high levels of redundant health benefits (where overlapping, spousal coverage means firms pay for benefits workers don't need);
- b) new housing-related employee benefit products are likely to become available very soon;
- c) Major labor unions have now indicated an interest in bargaining for housing benefits;
- d) housing benefits can be targetted to improve or stabilize communities proximate to corporate facilities;
- e) housing benefits are consistent with many corporations' sense of social responsibility.

HOMELESSNESS PREVENTION

The needs of the homeless, and the still huge budget deficit, suggest that Congress ought to include a National Homelessness Prevention Program in the bill, a program which would provide short-term loans and grants to homeowners and renters who are temporarily delinquent in their mortgage or rental payments so that these households may avoid eviction or foreclosure that would lead to homelessness. This idea has been proven to be a successful, cost-effective method of preventing homelessness at the state level -- most notably in New Jersey, Maryland, Pennsylvania and Massachusetts.

Thus far, the Senate Housing Sub-Committee's working papers pay insufficient attention to homelessness prevention as a companion to the more costly measures aimed at treating and curing homelessness. In fact, some versions of the bill would make permanent many of the less effective and more costly

approaches to homelessness -- funding emergency shelters without taking effective measures to stem the increasing tide of families made homeless by circumstances beyond their control. New Jersey, Pennsylvania and Maryland have helped many families on the brink of becoming homeless stay in their homes or apartments by providing small mortgage- or rental-assistance grants or loans to these families -- which ultimately cost only a small fraction of what it takes to provide emergency shelter for these families for only a few short months. Prevention also helps to prevent the breakup of families, and to preserve their sanity and dignity by allowing them to maintain their own homes or apartments.

New Jersey's homelessness prevention program, the first, largest and probably the most successful state program, provides temporary assistance as a last resort to households facing imminent eviction or foreclosure because they lack adequate funds for reasons beyond their control. Such reasons include the loss of employment, medical emergency, governmental-imposed and fault-free loss or delay of benefit payments, natural disaster, or crime victimization. The program makes no-interest loans and grants for tenant security deposits, rent arrearages, forward rent payments, and also makes no-interest second mortgage loans. In 1987 the program was able to help 2,791 households, or 8,959 people, avoid homelessness at an average cost of \$1.141 per household -- much of it to be recaptured through repayment of loans. The program has enabled more than 25,000 persons to avoid the nightmare of homelessness in the five years since its inception.

Massachusetts has taken another approach toward helping prevent homelessness. The Bay State government provides child welfare payments to poor women whose children have been temporarily placed in foster care in order to avert homelessness and permanent breakup of the families. In addition, several other states are trying to direct federal welfare payments (emergency assistance under the Social Security Act), federal rent vouchers and certificates for households threatened with eviction in order to prevent them from becoming homeless.

But these and all other state and local programs are woefully underfunded in comparison to the need. What is needed in the National Affordable Housing Act is a federal homelessness prevention program to provide temporary mortgage and rental assistance to families who are in danger of losing their home or apartment due to unforeseen financial difficulty and thus are in danger of becoming homeless -- coupled with a major new construction program to provide needed new low-income housing.

A good part of the increase in homelessness is a direct result of changed governmental policies during the Reagan administration. In the 1980s, the President and Congress limited

eligibility and cut social welfare and housing assistance programs -- including income assistance, medicaid, food stamps and rental assistance. And federal support for the construction of new low-income housing has been all but eliminated from the federal budget. These cuts have done relatively little to control the federal budget deficit, but they have contributed heavily to the rise in homelessness -- for which the current federal palliative is to spend between \$1,200 and \$2,400 a month to house a homeless family in an emergency shelter or welfare hotel, many of which are so deteriorated and lacking in services as to be worse than no shelter at all.

Preventing homelessness has proved to be the least costly and most humane approach to the problem and needs to be included in the National Affordable Housing Act. Coupled with increased levels of supplemental income assistance programs, rental assistance programs and new low-income housing production, America in the 1990s can travel a long way toward finding a cure for one of our most disturbing social trends.

Senator CRANSTON. Thank you very much. You present us with some very interesting ideas, very forcefully, on the matter of laws that inhibit providing employer-assisted housing. We absolutely have to work with the Finance Committee on that since it falls under the tax realm, but I would like to collaborate with you on that effort.

Thank you very much for your suggestions. Your whole statement is in the record.

Mr. Nelson.

**STATEMENT OF RICHARD Y. NELSON, JR., EXECUTIVE DIRECTOR,
NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT
OFFICIALS, WASHINGTON, DC**

Mr. NELSON. Thank you. I want to particularly commend you for the leadership and work that you have done over the past year in building this foundation for the National Affordable Housing Act and also point out the fine work that I think the staff has done in preparing the concept papers.

We support the outline, especially for expanding housing for low income Americans. We would suggest that you add one other guideline, that of predictability, predictability of Federal support for housing programs which over the past 8 years, particularly, have not been predictable.

Despite the fact that we are strongly supportive of your efforts and think that housing should be on the national agenda, I must take this opportunity to point out two areas that do bother us with the concept papers.

One is the failure of the concept papers to address neighborhood and community revitalization and development, which is a central part of a comprehensive approach to decent housing in this country.

The second, and very important to us, is the failure of the act to squarely embrace public housing as the foundation of any national program to house low income Americans. Public housing is the only permanently affordable housing that we have. It is a 50-year program, and it is basically successful. It is administered by a group of competent, experienced administrators, and we need to use that as the basis for any national program to house low income persons.

We also ought to use the opportunity of such a landmark piece of legislation to further strengthen and reinforce the provisions that we have related to our public housing program, particularly reinforcing our ability to modernize, to deregulate the public housing program, and to make public housing accessible to a cross-section of poor persons.

Now, let me give you a couple of comments on some of the particular provisions of the National Affordable Housing Act as it will come forth.

Particularly as it relates to the preservation of rental housing, the act doesn't—I don't think it forcefully enough addresses the 3.4 million at-risk assisted housing units. This act should help prolong the low income use of these units.

CREATION OF AN OFFICE OF PRESERVATION

We also as an organization support the creation of an Office of Preservation under the jurisdiction of the Assistant Secretary for Housing and FHA Commissioner. We think the act should clearly state and push for the one-for-one replacement of vouchers and certificates as they might expire.

In terms of the Housing Opportunities Partnership Program, we think this is an exciting opportunity, but we also think that you should consider emphasizing more of the production of low income rental units by requiring about 75 percent of those moneys to go toward rental units.

We also think that there should be attention given to fair sharing of those funds throughout the country to avoid some of the discretionary abuses we have seen in recent years.

And equally importantly, in referring to a point that I made earlier, we don't think that the act recognizes enough the ability of the infrastructure that already exists at the local level to administer these programs.

We think that you should in fact provide for the local PHA's to have the option of administering most of these HOP funds. They are the ones who have the experience of dealing with low income housing in terms of building, rehabilitating, and managing, and we think that is a resource that you should focus on more.

We think that the act should also focus on strengthening the low income housing tax credit. There have been a number of suggestions made in terms of how we can strengthen that tax credit to help us deal with the low income housing problem.

For example, we suggest eliminating the 1989 sunset, removing investor income limits, and eliminating the cap on the amount of credits for individual investors, and we include a number of other suggestions in our formal testimony, which I hope you will include in the record.

On the issue of credits we support the rental credit program you introduce, especially as it replaces section 8 and the voucher program. We support the proposal for fair market rents and particularly the local option to make assistance project or tenant based and establish housing quality standards and rent reasonableness.

We urge, however, that you establish eligibility for this program at 80 percent of median. This relates to a question you asked earlier, Senator, in terms of that group of people between 50 percent and 80 percent of median.

The fact is these people are still poor and they cannot afford housing in this country. More important or equally important is that in many cases these are people who are just entering the workforce, just beginning to establish an economic self-sufficiency. If they are not permitted to get housing benefits, then what we are doing is perpetuating the disincentives to working for those people.

We need to do more to create the opportunity for those entering the workforce to be housed before they can go out into the private sector. So we strongly urge increasing the opportunity for that group of persons.

I see the red light has gone on, and I would ask again that our full testimony be included for the record.

And again I thank you for your efforts. As always, we stand willing to work with you and the staff to further develop these opportunities for improving the state of housing for low income people.

[The complete prepared statement of Mr. Nelson follows:]

Good morning, Senators. My name is Richard Nelson. I am the Executive Director of the National Association of Housing and Redevelopment Officials. NAHRO appreciates the opportunity to comment on the National Affordable Housing Act concept papers. We also appreciate having being included in the process of developing landmark housing legislation since your call for ideas last summer. We offer our comments as part of the constructive exchange that has occurred over the past year.

As you know, NAHRO represents the agencies and individuals who carry out the nation's housing and community development programs at the local level. NAHRO's membership includes 2,400 local agencies and 5,800 individuals. Our comments on the National Affordable Housing Act concept papers are based on "Keeping the Commitment," an action plan for better housing and neighborhoods developed by local housing and community development officials. "Keeping the Commitment" is a NAHRO policy blueprint based on the same guidelines as the National Affordable Housing Act: simplicity, local flexibility, and building on what works.

I would add one more objective: predictability. Housing for low-income persons must be available for the long-term. And the federal government's support for its local government partners must be long-term. The National Affordable Housing Act must make a long-term commitment to make a difference in the quality and cost of housing for the growing number of American families who are doubled-up, burdened with high housing costs, or homeless.

NAHRO supports the framework of the proposed National Affordable Act as a positive step toward a comprehensive national affordable housing policy. We are disappointed, however, that the Act does not address neighborhood or community revitalization. Public works, infrastructure improvements, social service facilities, and job services must be part of a comprehensive approach to decent, affordable housing and strong neighborhoods.

NAHRO finds that the Act does little to build on the benefits of public housing or to address some of the major issues facing the program. Public housing has demonstrated its worth during the past 50 years as a stepping stone up the economic ladder for countless Americans. Public housing is the only permanent, affordable housing for low-income persons and families. This program should form the basis for any major new housing legislation.

The Act should more directly focus on modernizing the existing public housing stock. The Act should address the current backlog of modernization needs as well as future needs for repair and replacement of public housing building systems.

The Act would provide Housing Opportunities Partnership participants with greater flexibility than under current federal housing programs. Yet the Act does not address over-regulation of the public housing program. Public housing is micro-managed from Washington and is subject to many more regulations than the Section 8 program, which serves the same income population as public housing. Public housing deregulation should be implemented to release the creative energies of PHAs, allowing them to pursue greater financial self-reliance for themselves and their residents.

By its silence on the subject, the Act would continue to make public housing the housing of last resort. Public housing must be made available to a cross-section of low- and very-low-income residents, as was originally intended. Making public housing available to a somewhat wider range of incomes makes both sound economic sense and sound social policy.

The Act is silent also on the subject of federal funding for new Low-Rent Public and Indian Housing, as well as Major Reconstruction and replacement public housing. New public housing today is better designed and less densely built than some public housing developments of the past. And public housing is the only affordable housing that remains affordable for the life of the

property. The nation has lost two million units of affordable unassisted housing over the past 15 years, and we are in danger of losing two million federally assisted units in the next 15 years. The Act should support continued funding for public and Indian housing production and major reconstruction.

NAHRD encourages the Subcommittee to fill in critical blanks in the proposed Act. Several key figures are missing -- for example, the level of the administrative fee under "rental credits," and the state or local match required to participate in the Housing Opportunities Partnership program.

NAHRD encourages the Subcommittee to specify which federal housing programs it would terminate should the Housing Opportunities Partnership program be implemented.

Homeownership Affordability

NAHRD supports the initiatives outlined in the Subcommittee staff-concept paper on Homeownership Affordability subject to some modifications.

The Subcommittee staff proposals on the use of IRAs and 401(k) accounts for home savings are overly restrictive and complicated. Would-be homebuyers should be able to set up IRA-like accounts dedicated to downpayment finance -- not just be able to use existing retirement accounts. Homebuyers should not be required to pay back money (to themselves) used for a downpayment. The savings plan limit should be set at 10% of the median sales price of a new home in the area.

NAHRD supports the Subcommittee staff proposal on FHA downpayment requirements, but recommends also that FNMA and FHLMC reduce their downpayment requirements for privately insured mortgages.

Rental Housing

NAHRD supports the Subcommittee staff's proposals on the "Preservation of Affordable Housing" with some additions. NAHRD does counsel against the creation of a new Assistant Secretary for Housing Preservation. All

existing programs covered under this provision of the Act are clustered already under the Assistant Secretary for Housing. As an alternative, we suggest that an Office of Housing Preservation be created under the Assistant Secretary to coordinate preservation activities.

The Act should say more about the role of state and local agencies in preserving low-income housing projects. Local housing agencies and non-profit organizations should be given preference to acquire "at-risk" federally-assisted, privately-owned rental housing, HUD-held properties, and FHA-foreclosed properties, to ensure that this housing stock remains permanently affordable.

The Act should directly address the subject of expiring Section 8 Existing certificates and vouchers. Expiring certificates and vouchers should be replaced on a one-for-one basis -- and should not have to compete with the demand for additional rental assistance from the same funding pool. Funding for new "rental credits" should be appropriated in addition to funding for replacement certificates and vouchers.

The Act should state that the federal government's role in housing preservation includes providing resources to prolong low-income occupancy of assisted housing developments. The Act should also identify the types of financial assistance available for housing preservation under current programs (including Flexible Subsidy and Loan Management), opt-outs from contracts for insured and Section 8 assisted housing projects, and prepayments of HUD-insured mortgages, as well as any new programs.

NAHRD does not see the need for the creation of a Government National HOME Corporation. We prefer that responsibilities outlined under the "Investment in State and Local Strategies" section be housed under GNMA and the Assistant Secretary for Housing.

NAHRO supports the proposed Housing Opportunity Partnership subject, to several modifications and clarifications.

The HOP Investment Certificate system proposed in the concept paper is overly complex and would take too long to implement. HUD should simply allocate funds in the form of forgivable loans (repayment would be required on projects that did not achieve a minimum low-income us: period). If the Investment Certificate system is implemented, the Act should clarify that local public housing agencies, redevelopment authorities, and housing finance agencies would be allowed to issue investment certificates. The concept paper currently limits issuing authority to "public agenc[ies] responsible to the chief executive officer of the state or localit,." Most PHAs, redevelopment authorities, and HFAs are quasi-public entities, directed by boards appointed by the chief executive or legislative body, and authorized by state or local laws.

At least 70 percent of a state's or locality's HOP funds must go to rental housing. The Housing Opportunity Partnership program should reflect the growing need in this country for decent, affordable rental housing.

NAHRO prefers that 50 percent of HOP funds go toward the development of publicly- or non-profit-owned housing. As an alternative, decisions on the ownership of HOP-assisted housing should be left to state or local administering agencies, with no floor or ceiling on the amount of HOP funds that could go toward publicly- or non-profit-owned housing.

Homeownership assistance under HOP should have to meet the same program requirements as those under Mortgage Revenue Bonds.

Although a state or local match would not be required, bonus funds should be made available to projects where state or local resources were invested, or where a high percentage of private sector funds were leveraged. Twenty percent of HOP funds should be made available in this "bonus" fund.

A "Housing Assistance Plan" could be accepted as a local housing strategy (if it met program criteria).

HOP funds should be allocated on a fair share basis to states and localities. The fair share system should reflect the criteria outlined in the Subcommittee concept paper. States and localities would have two months to notify HUD of their intention to use allocated funds. States and localities should have six months after notifying HUD to submit a housing strategy for HUD approval. Any funds left unclaimed should be made available by competition to local agencies in states or localities with unclaimed funds.

There should be no minimum percentage of HOP funds reserved for non-profit sponsors.

Local PHAs should have the option of administering a majority of HOP funds allocated to localities. PHAs are proven providers of low-income housing. They have experience in acquiring, building, rehabilitating, and managing assisted housing. PHAs may also contract with neighborhood-based, non-profit groups to manage housing and provide related services.

NAHRO supports the proposal for "Securities Backed by Mortgage Pools," but we believe this function could be fulfilled by GNMA.

NAHRO supports the full range of technical assistance and research activities specified for the HOME Corporation, but believes these functions should be carried out by GNMA or the Office of Assisted Housing.

The Act should specify the following modifications of the Low Income Housing Tax Credit: eliminate the 1989 sunset; remove investor income limits; eliminate cap on amount of credits for individual investors; permit carry-over of credit authority from one year to the next; and eliminate penalties for using credits with other federal housing programs or tax-exempt bond financing. Also, investors using the Low Income Housing Tax Credit should be permitted to make an upfront commitment to donate the housing to a public or non-profit

entity, without penalty, for continued low-income use at the end of 10 years. The donation would stipulate that this housing would remain affordable to low-income persons for the expected life of the property.

NAHRO supports the establishment of a "rental credit" program to replace the current Section 8 certificate and voucher programs. NAHRO supports the Subcommittee staff's provisions concerning fair market rents, the local option to make assistance project- or tenant-based, housing quality standards, and rent reasonableness. NAHRO recommends the following improvements to the Subcommittee staff's proposal.

Eligibility should extend to households earning 80 percent of area median income or less. We believe that assistance should be available to the working poor as well as to very-low-income persons.

Rental credit authority should be allocated to PHAs, as is currently the case with Section 8 certificates and vouchers.

NAHRO supports a fair share allocation of rental credits to the 10 HUD regions, as is currently the case with Section 8 certificates and vouchers. The "fair share" system should consider PHA performance and local housing needs. Housing need factors should include the number of poorly housed families and individuals, new construction versus rental assistance needs, the concentration of special need populations, and vacancy rates. Performance factors include PHA lease-up experience, programs to address special need populations, geographic choice of housing to participants, and past underfunding of local needs. Housing needs should be weighted more heavily than PHA performance.

PHAs should be allowed to use up to 20 percent of their allocations for project-based rental housing.

NAHRO supports household contributions at 30 percent of adjusted income. Participating households could pay more for rent if approved by the local PHA.

PHAs should receive a base administrative fee of 8.2 percent. A higher fee of 8.5 percent could be provided to agencies experiencing higher administrative costs. For example, PHAs in tight housing markets may provide more intensive housing-related services to achieve a high success rate, and PHAs in large geographical areas must address different needs in many different housing markets within their jurisdiction. NAHRO supports the concept of "bonus payments" for successfully housing large or hard-to-house families.

PHAs should have the flexibility to freeze the rent contributions of a household whose income has increased and whose rent contributions would exceed 30 percent of adjusted income (up to two years) if the household's members are actively engaged in a welfare reform program.

And, as I mentioned before, additional funding should be provided to renew expiring contracts under the Section 8 certificate and voucher programs -- at least for an interim, transition period.

Supportive Housing

NAHRO supports a concerted effort to provide housing and related services for the special housing needs of elderly, disabled, and homeless persons, as well as large, low-income families. But NAHRO opposes the creation of another assistant secretary's position to carry out this function.

With respect to the problem of homelessness, we must not fund temporary housing at the expense of long-term, affordable housing. Many homeless families may require transitional services, not transitional housing. Much of the increase in homelessness has been among working families with children. Their need is for permanently affordable housing.

NAHRO supports the concept of "Project Retrofit" for housing for elderly persons, but opposes siphoning off funding from existing federal sources (such as public housing operating subsidies, modernization funds, and Section 202

Senator CRANSTON. Thank you very, very much.

Let me say, although it is not mentioned in the August 12 draft of the staff concept papers, it is clearly the intent of the subcommittee that the rural housing programs administered by the Farmers Home Administration will be extended and strengthened. The subcommittee's support for existing rural housing programs will be reflected in a forthcoming staff concept paper on the National Affordable Housing Act.

I just wanted to give you that assurance.

Mr. WILSON. We appreciate that, Mr. Chairman. Thank you, and we look forward to working with the subcommittee on the development of the rural housing initiatives.

Senator CRANSTON. I regret to announce that we have run into a worse red light than this one. When the Senate convenes, if any Senator objects to committees being in session after 2 hours, they cannot meet. There has been a Republican objection to committees meeting after this hour. So we are going to have to recess this hearing.

I did have some questions I intended to ask each of you, and since I am precluded from doing that verbally, we will submit them in writing to you, and if you can report back within 2 weeks I would appreciate that very much.

So we stand adjourned.

[Whereupon, at 11:30 a.m., the subcommittee was adjourned.]

NATIONAL HOUSING AFFORDABILITY ACT

WEDNESDAY, SEPTEMBER 28, 1988

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 9:30 a.m. in room SD-538, Dirksen Senate Office Building, Senator Alan Cranston, (chairman of the subcommittee) presiding.

Present: Senators Cranston, Sarbanes, Dixon, Shelby, Heinz, D'Amato, Hecht, and Chafee.

OPENING STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. Senator Cranston has another committee hearing and will be here within about 15 minutes and he's asked me to start the hearing as we have three distinguished panels.

Let me say that I am tremendously pleased we have been able to work with Senator Cranston to join with him and our staff in efforts to embark on what I think is certainly something which our concept papers address and which is desperately needed, and that is a national affordable housing act.

Our first hearing provided us with helpful insight into the broad use of IRA funds and FHA programs to stimulate homeownership opportunities. Our second hearing focused on the role of State and local governments in meeting this Nation's housing needs.

Our third hearing addressed a broad array of topics ranging from prepayment to neighborhood development.

The last of our hearings, the one today, will address the housing problems facing the homeless, the elderly, and the handicapped.

These hearings have been extremely helpful in tailoring and re-vamping the staff concept papers. Senator Cranston and I have gained a clearer understanding of what will and what will not work from the experts, from those in the field. We have discovered a few unexplored approaches to dealing with our housing problems and we've received overwhelming confirmation that the Federal Government must be a leader in addressing the housing problems of this Nation.

I appreciate the honesty, the expertise, and support expressed by individuals and organizations as we develop a national affordable housing act. It's my hope that this legislation will be the first of many steps toward tackling the serious housing problems facing young and old, able and disabled, and those who simply desire a safe, decent, and affordable place to live.

Our first panelists—and I'll ask them to come on up—Martha Knisley, deputy secretary for mental health; Thomas Slemmer, executive vice president, National Church Residences; Leo Smith, trainer-organizer for Consumer Housing Information Service for Seniors; and Paul Sherlock, a member of the Governmental Affairs Committee, Association of Retarded Citizens.

I'm going to have all of your statements placed in the record as if read in their entirety and would ask, in the interest of the fact that we do have three rather large panels, if you couldn't try to confine your remarks to 5 minutes and we'll have an opportunity for questions.

Martha Knisley, deputy secretary for mental health, Commonwealth of Pennsylvania, it's good to have you.

[The prepared statement of Senator D'Amato follows:]

STATEMENT OF SENATOR D'AMATO
NATIONAL AFFORDABLE HOUSING ACT
SEPTEMBER 28, 1988

MR. CHAIRMAN, I AM PLEASED TO JOIN YOU AS WE EMBARK ON THE LAST IN A SERIES OF FOUR HEARINGS ON VARIOUS APPROACHES, EMBODIED IN "CONCEPT PAPERS," TO THE NATIONAL AFFORDABLE HOUSING ACT. OUR FIRST HEARING PROVIDED US WITH HELPFUL INSIGHT INTO THE BROAD USES OF IRA FUNDS AND THE FHA PROGRAM TO STIMULATE HOMEOWNERSHIP OPPORTUNITIES. OUR SECOND HEARING FOCUSED ON THE ROLE OF STATE AND LOCAL GOVERNMENTS IN MEETING THIS NATION'S HOUSING NEEDS. OUR THIRD HEARING ADDRESSED A BROAD ARRAY OF TOPICS RANGING FROM PREPAYMENT TO NEIGHBORHOOD DEVELOPMENT. THE LAST OF OUR HEARINGS, THE ONE TODAY, WILL ADDRESS THE HOUSING PROBLEMS FACING THE HOMELESS, THE ELDERLY, AND THE HANDICAPPED.

THESE HEARINGS HAVE BEEN EXTREMELY HELPFUL IN TAILORING AND REVAMPING THE STAFF CONCEPT PAPERS. SENATOR CRANSTON AND I HAVE GAINED A CLEARER UNDERSTANDING OF WHAT WILL AND WILL NOT WORK; WE HAVE DISCOVERED A FEW UNEXPLORED APPROACHES TO DEALING WITH OUR HOUSING PROBLEMS; AND, WE HAVE RECEIVED OVERWHELMING CONFIRMATION THAT THE FEDERAL GOVERNMENT MUST BE A LEADER IN ADDRESSING HOUSING PROBLEMS OF THIS NATION.

I APPRECIATE THE HONESTY, EXPERTISE, AND SUPPORT —
EXPRESSED BY INDIVIDUALS AND ORGANIZATIONS AS WE DEVELOP THE
NATIONAL AFFORDABLE HOUSING ACT. IT IS MY HOPE THAT THIS
LEGISLATION WILL BE THE FIRST OF MANY STEPS TOWARDS TACKLING
THE SERIOUS HOUSING PROBLEMS FACING YOUNG AND OLD, ABLE AND
DISABLED, AND THOSE WHO SIMPLY DESIRE A SAFE, DECENT, AND
AFFORDABLE PLACE TO LIVE.

THANK YOU, MR. CHAIRMAN.

STATEMENT OF MARTHA KNISLEY, DEPUTY SECRETARY FOR MENTAL HEALTH, DEPARTMENT OF PUBLIC WELFARE, COMMONWEALTH OF PENNSYLVANIA; CHAIRPERSON, NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS

Ms. KNISLEY. Thank you, Senator D'Amato.

My name is Martha Knisley and I am the deputy secretary for mental health in the Commonwealth of Pennsylvania in the Department of Public Welfare, and I am here today representing the National Association of State Mental Health Program Directors.

This National Association of State Mental Health Program Directors, or NASMHPD, has been in the past 2½ years very active and keenly interested in the concepts of affordable housing as a major issue that we are facing and have been facing and feel is a major priority for our organization and for the persons we serve.

As State mental health program directors, we are tied to State government and are directly tied to the provision of services in State government, but we are also tied to the disability groups and to the persons we serve and share a common bond and a common interest with the disability groups.

About, I would say, 5 or 6 years ago the State mental health program directors began to be aware of the lack of affordable housing as a major issue that we were facing for persons with serious mental illness.

DEINSTITUTIONALIZATION

During the 1960's and the 1970's, we're all aware that deinstitutionalization occurred within our States and as State mental health programs we were the principal architects of reducing the reliance on large state institutions. This particular approach has been highly criticized and has been fraught with many problems, but we were also aware—and I worked out on the streets during the 1970's as a case worker and developing residential programs—that there was more affordable housing during that period of time and even though things weren't good, it has not been nearly the travesty that we've seen in this decade with the lack of housing available to us.

It is for that reason that we began looking at the appropriate housing that we needed for the persons we served. At the same time, we realized that there were a number of problems with Federal, State, local and the nonprofit sectors trying to put together housing programs.

We formed a committee directly relating to housing and I chaired that committee along with commissioners from eight other States. We have been very active in the past 2 years not only with congressional staff, with other disability groups, and with each other, developing concepts and proposals to help each other and to promote housing with our own State housing authorities, with the nonprofit organizations that have carried the burden for so many years, with local government, with county government, and with the cities where housing has not been available.

We applaud this committee, Senator, yourself and the other Senators who have been involved and the staff. The concepts brought

forth in the concept papers are refreshing. They reflect a serious commitment to housing and they reflect a very keen appreciation for the problems that we're facing with affordable housing in the United States. So we commend you on the efforts to date and hope that we can move forward in a positive vein.

In the past several years we've also been active with the Robert Wood Johnson Program for the Chronically Mentally Ill in developing major housing programs in nine cities, the single largest program undertaken by that foundation, and we have found in those efforts—and I've been involved with four of those nine cities in the last few years—we have found that we need a very strong relationship between State and local government if we're going to be successful in the housing problems that we are facing.

Recently, the National Governors' Association has also looked at the issue of serious mental illness and have again highlighted housing as one of the top four priorities for our mental health programs in this country.

I would just comment very briefly that for persons with serious mental illness we urge the inclusion of these persons in the housing through the housing opportunity programs and urge that they not be segregated out. The stigma of mental illness and the segregation out into special housing has created a number of problems for us in the past and we urge that you consider their inclusion into the housing opportunity programs as a major endeavor that we've been working on to nonstigmatize persons with serious mental illness.

Again, I would like to thank you, Senator Cranston, for your interest. We are very excited and hopeful. The concept papers reflect a true understanding of the problems that we're facing with affordable housing in this country.

Thank you very much.

Senator CRANSTON. Thank you.

[The complete prepared statement of Ms. Knisley follows:]

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reserves).

NAHRO also supports the concept of HUD "Service Coordinators," but opposes siphoning off funding from existing federal sources.

NAHRO supports the concept of "Special Initiative Grants."

The Act should continue the successful Congregate Housing Services program.

NAHRO supports the continuation of federal funding for special needs housing, including elderly and handicapped housing, but prefers that such funding come from the Housing Opportunity Partnership program. Alternatively, if separate programs for elderly and handicapped housing are retained, the following program features should be implemented.

First, local sponsors should be eligible for forgivable loans for housing that remains in affordable service for at least 40 years. Second, public agencies should be allowed to be elderly and handicapped housing sponsors. Third, provisions should be made to ensure that family rental housing is developed under the HOP program. Fourth, elderly and handicapped housing should not be built in neighborhoods or jurisdictions where there is sufficient public or assisted housing for elderly or disabled persons.

NAHRO opposes a special set-aside of rental credit authority for handicapped housing. Instead, NAHRO supports the local option to use up to 20 percent of funding to meet special housing needs or use in conjunction with programs to increase the supply of decent, affordable housing.

NAHRO also supports the extension of the Stewart B. McKinney Homeless Assistance Act of 1987. NAHRO supports the formula allocation of McKinney funds as outlined in the Subcommittee staff proposal. NAHRO supports the proposed expanded Comprehensive Homeless Assistance Plan as outlined in the Subcommittee staff proposal. NAHRO supports the proposal on the "elimination of unfit welfare hotels."

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NAHRO supports authorization for a permanent "Project Independence." PHAs across the country are already participating in "Project Self-Sufficiency," which includes initiatives to provide day care, job skill training, and other motivations for single parents to complete their high school equivalency exam, learn job skills, and gain employment at a decent wage. We support the Subcommittee's proposal so long as "Special Incentive Grants" are not funded from public housing operating or modernization funds.

Before closing, let me restate NAHRO's support for national housing and community development programs that continue to build on the working relationship between the federal government and local public agencies. In August of this year NAHRO and the Association of Local Housing Finance Agencies, the U.S. Conference of Mayors, the National League of Cities, the National Association of Counties, and the National Community Development Association submitted a "Housing and Community Development Policy Precepts" paper for your consideration. We cannot stress enough that local public agencies should be the principal administrative entities in any new housing assistance programs.

We look forward to continuing to work with you toward restoring the nation's commitment to a decent, affordable home and vital neighborhood for every American. As always, you can rely on NAHRO's support and on the nation's 80,000 local housing and community development professionals to do the job of translating the dream of a decent home into a reality.

NASMHPDCOOPERATING AGENCY
COUNCIL OF STATE GOVERNMENTS**National Association of
State Mental Health Program Directors**

1101 King Street, Suite 160 • Alexandria, VA 22314 • (703) 739-9333

THE ROLE OF NASMHPD

The National Association of State Mental Health Program Directors is pleased to provide testimony to the Senate Subcommittee on Housing and Urban Affairs as it considers new proposed national housing policies.

NASMHPD, the organization which represents the state and territorial public mental health directors, occupies a significant position within the housing policy arena. NASMHPD operates under a cooperative agreement with the National Governors' Association, our members serve at the direction of the nation's governors, and we are sensitive to the intergovernmental relations between the federal and subnational governments.

NASMHPD is also a participant within the mental health and larger disability communities, as demonstrated in our memberships in both the Mental Health Liaison Group and Consortium for Citizens With Developmental Disabilities. We are an advocate for persons with serious mental illness, we are knowledgeable of and supportive of the mental health field, and we are an important financier, broker, and provider of public mental health services.

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STATEMENT OF**NATIONAL ASSOCIATION OF STATE MENTAL
HEALTH PROGRAM DIRECTORS****BEFORE THE****SENATE SUBCOMMITTEE ON HOUSING
AND URBAN AFFAIRS****ON****NATIONAL HOUSING POLICY**

Witness: Martha Knisley
Deputy Secretary for Mental Health
Department of Public Welfare
Commonwealth of Pennsylvania

September 28, 1988

The Public Citizen Health Research Group and the National Alliance for the Mentally Ill (Care of the Seriously Mentally Ill: A Rating of State Programs, Second Edition, 1988) have determined that housing is one of the four essential elements in serving persons with serious mental illness (the others being inpatient hospital care, outpatient services, and rehabilitation services). Thus, the role of HUD programs are an important contributor to the quality of life of persons with mental illness. NASMHPD serves as a bridge between America's public sector and mental health professionals, providers, advocates, consumers, and families.

INTRODUCTORY STATEMENT OF MARTHA KNISLEY

Senator Cranston, distinguished members of the Senate Housing and Urban Affairs Subcommittee, thank you for the opportunity to present testimony on the proposed National Affordable Housing Act. My name is Martha Knisley. I am the Deputy Secretary for Mental Health in the Department of Public Welfare, Commonwealth of Pennsylvania. I also serve as the Chairperson of the National Association of State Mental Health Program Directors Housing and Residential Services Committee. I am joined on this committee by my fellow commissioners from the states of Colorado, Connecticut, District of Columbia, Massachusetts, Michigan, Minnesota, Missouri, Ohio, Rhode Island, and Wisconsin.

For the past several years, the National Association of State Mental Health Program Directors has worked diligently on an agenda for improving housing and living for persons with serious mental illness. We have realized for some time the importance of affordable housing for the over one million Americans who have a long term and persistent mental illness. We have promoted this concept with the National Institute of Mental Health, Congressional staff, and other advocacy groups. We have assisted one another in the development of affordable housing. We have been major players in the Robert Wood Johnson Foundation Program for the Chronically Mentally Ill which is currently engaged in demonstrations in nine cities for development of a strong community-based care system for persons with serious mental illness. This program is their largest single grant program in the Foundation history. In the states where the nine cities are located, state mental health authorities have stepped forward as the leading proponents and in some cases, financiers of the housing programs.

Recently, we began working with the National Governors' Association. At the request of Governor Richard F. Celeste of Ohio, NGA is studying the services needs of persons with serious mental illness. Housing as one of the four major issues that has emerged from that effort that must be dealt with if our nation is to effectively respond to the needs of persons with serious mental illness. In summary, we believe that the time has come for this nation to face squarely and directly the issue of affordable housing and for that agenda to be complete, major attention must be given to affordable housing for persons with long term and persistent mental illness. Our statement today is fully consistent with that delivered before this subcommittee on September 21 by the National Governors' Association.

Senator CRANSTON. Paul, do you have a statement you want to make?

OPENING REMARKS OF SENATOR SARBANES

Senator SARBANES. Well, Mr. Chairman, I appreciate that opportunity and I apologize to the panel for interrupting this procedure but, unfortunately, I'm not going to be able to stay through this hearing because I'm scheduled to chair another hearing very shortly.

I do want to underscore the very important and valuable contribution which you and Senator D'Amato have been making as you conduct this series of hearings on affordable housing legislation.

But I particularly wanted to take just a moment to welcome Mr. Leo Smith, who is testifying as part of this first panel. Mr. Smith is a resident of Waldorf, MD. He is appearing today as a representative of the American Association of Retired Persons, and we know the very strong work which the AARP has done over the years in a number of very important areas.

Mr. Smith, after retiring from his career at the Goddard Space Center several years ago, has been devoting his time to a number of very worthwhile activities that have helped the elderly and low and moderate income citizens in my State find adequate housing and other essential services. He's been a volunteer in the food distribution programs, the energy assistance programs, and is a trainer-organizer for the successful Consumer Housing Information Service for Seniors in Southern Maryland that provides housing counseling for older citizens in that region.

I think the fact that the AARP has chosen him to represent them today is a tribute to his outstanding work and his very creative insights about housing problems.

I also want to note that he's been selected to be a member of the Governor's Commission in Maryland on the Homeless and I very much wanted to be here to welcome Mr. Smith and the other members of the panel and to explain to them why at some point shortly I will have to leave this important hearing.

Thank you very much.

Senator CRANSTON. Thank you very much, Paul.

OPENING STATEMENT OF SENATOR CRANSTON

I'd like to make just a very brief statement regarding today's hearing. I welcome all who are here.

This concludes a series of four hearings in which the subcommittee has been receiving recommendations that will help us in shaping the drafting of the National Affordable Housing Act.

We have a rare opportunity during the next few months to formulate a new national housing policy: A policy that taps the enormous resources of those who care about decent, affordable housing for all Americans, a policy that is equal to the urgent housing needs the country will confront during the remainder of this century.

During the past few years we've all made much progress toward a national housing policy. It's been a remarkable effort. Virtually every major housing organization has assisted with enthusiasm.

Leaders from every segment of the housing system have provided thoughtful suggestions. Recommendations have come from every region of the country.

When we began I found strong agreement that affordable housing must move back up on the national agenda. As we continued, I found a growing and powerful consensus about the broad outlines of what this country must do to provide affordable housing for all Americans.

Of course, many elements of a new housing policy remain to be developed. Many areas of disagreement remain to be resolved and some very difficult work remains to be done. But I'm more confident than ever that the country can have an effective housing policy.

We can achieve it if those of us who care about decent, affordable housing continue to work together and with determination. This is the time to begin developing specific legislation. The housing bill should be ready to move on a fast track early in the new Congress with a new President.

Al D'Amato and I want to work with the new administration and other Members of Congress to refine the legislation as soon as possible after the election.

We have asked the Housing Subcommittee staff to develop preliminary concept papers for a National Affordable Housing Act and to distribute them widely so that many can participate in shaping that legislation. We greatly appreciate the fact that these concept papers are receiving thoughtful analysis. Many valuable recommendations have already been received. I know we will receive more.

I assure you that recommendations made in these hearings will shape our work as the subcommittee expands and reformulates suggestions in the concept papers.

I feel very strongly that as refinements are made the new housing bill must continue to address several vital issues. Briefly, they are these.

First, the new bill should be designed to provide the most housing over the long haul for those who desperately need it. We cannot assume that some given level of funding will be provided for housing. Adequate funding will have to be won in a series of tough budgetary struggles. Therefore, a new housing policy must get the most housing for the longest period of time for each Federal dollar and the policy must build broad support around the country.

Second, the new bill should be designed so that Federal housing assistance is an investment in affordable housing as a long-term national asset. I agree with the strong consensus that we should provide more flexible Federal housing assistance and give States and localities more responsibility for program design, but I am also well aware that some powerful groups have long advocated a housing block grant as a transitional device to accelerate a final Federal retreat from housing. We must resist that.

We must take special care to make sure the new housing bill builds a reliable, long-term federal commitment to affordable housing.

Third and finally, the new bill should more effectively combine housing and services for those with special needs, particularly the

elderly, the handicapped, the homeless. Each of these groups have distinctive needs that deserve their own special attention. The new housing bill should ensure that HUD at long last is committed to providing supported housing for Americans with special needs.

I look forward with anticipation to this morning's testimony. I thank you for being with us. I thank Al D'Amato for his great collaborative effort with me and with other members of the committee on this. I thank Paul Sarbanes for his great interest and leadership.

[The prepared statement of Senator Cranston follows:]

September 28, 1988

OPENING STATEMENT OF SENATOR ALAN CRANSTON
HEARING ON THE NATIONAL AFFORDABLE HOUSING ACT

I want to welcome everyone here this morning. Today's hearing concludes a series of four hearings in which the Subcommittee has been receiving recommendations that will shape the drafting of the National Affordable Housing Act.

We have a rare opportunity during the next few months to formulate a new national housing policy -- a policy that taps the enormous resources of those who care about decent, affordable housing for all Americans; a policy that is equal to the urgent housing needs the country will confront during the remainder of this century.

During the past two years we have all made much progress toward a new national housing policy. It has been a remarkable effort. Virtually every major housing organization has assisted with enthusiasm. Leaders from every segment of the housing system have provided thoughtful suggestions. Sound recommendations have come from every region of the country.

SOME KEY ISSUES

For affordable housing to be most responsive to persons with serious mental illness, several key issues must be considered:

(1) First is our recognition that persons with serious and persistent mental illness have the same housing needs as other Americans who live on a fixed and/or low income. Their mental disability, like those of other disability groups, does not negate the fact that they have a fundamental need for a decent place to live. Recent National Institute of Mental Health studies have found that the common thread for all persons with serious and long term mental illness was not their diagnosis and was not the extent or nature of their disability, but rather the fact that they had limited income by which to secure housing. Persons with mental illness are numbered in the ranks of our nation's homeless population, while their illness may be a factor in their plight, they clearly have one common characteristic with all other persons who are homeless. They don't have a home and they have very low income; which means that in an era of reduced attention to low income housing they would be disproportionately affected as a group of persons who find themselves without adequate shelter.

(2) Secondly, persons generally are first diagnosed as having a mental illness in their young adult years which are the wage earning years for most of us. If they don't begin to work because of their illness or only able to work intermittently, they have no income. In fact, we project that the annual average income of an adult with serious mental illness is less than \$3,000 a year. At any given point, we estimate that 20% of the nation's mentally ill population are on the state general assistance rolls as their major income and 28% of persons with serious mental illness are receiving SSI or SSDI. In our large cities, a monthly income of between \$300-\$400 a month is not sufficient for a decent place to live and unless subsidized housing is available, they rely on their families, many of whom are older and no longer able to care for their ill relative, live in horrible conditions, remain institutionalized, or live on the street.

(3) Third, we have also learned that our approach to the provision of residential services is not an adequate substitute for a person's housing needs. Most states, even those with large investments of service dollars made available through the state mental health authority, are only able to serve about 10% of their state's population of seriously mentally ill persons with some type of residential program. These dollars are generally 100% state financed with little support from private and public housing financing. Furthermore, residential programs are generally

transitional in nature, lacking the value of being a person's own place to live and integrated more into community life. It is a common thread in American life to have your own place to live and is as essential as a decent education and a job. Therefore, persons with serious mental illness, not unlike the rest of us, have indicated repeatedly that they want to be able to find a way to have their own place to live. We believe that the choosing of a place to live, maintaining it, and even owning it has as much therapeutic value to the individual as any other service we provide. We believe providing support services to the person in their own place can be more effective than segregated housing. Both the National Association of State Mental Health Program Directors Housing Committee and the National Institute of Mental Health have shifted our focus in the past decade from larger residential programs to the development of supported housing initiatives.

THE NATIONAL AFFORDABLE HOUSING ACT CONCEPT PAPERS

The concept papers recognize the need for "integrated" or "independent" housing with support services linked to the persons in that housing, but the recommended solutions to developing, increasing, and sustaining special needs persons in that housing will not accomplish the desired goal:

- (1) For handicapped persons, simply revamping the HUD Section 202 program will continue to promote segregated, "special" housing, where handicapped persons are isolated into groups rather than integrated into mixed-site settings with the general public. The Commissioners recommend two changes to accomplish integration:

- a. Flexibility in the types of housing sponsors eligible, and
- b. Linkage to the Housing Opportunity Program (HOP) described in Section II of the paper by allowing units developed under the Handicapped Loan Fund to be developed in conjunction with, and by the same sponsors as, those developing generic low-income housing through the HOP. The HOP as described already recognizes the wisdom of this by permitting HOP funds to be used for a portion of dwelling units in a housing project. The same provision should be made for special needs housing. Housing sponsors could be required to affiliate with special needs service providers to assure appropriate support of persons in the housing.

2. For homeless persons, the weakness of the proposals suggested is similar to that for handicapped persons; specifically, there must be a linkage of all the housing developed through McKinney Act Funding to the HOP program. The concept here is that the development of low-income affordable housing should be a united effort rather than a series of separate specialized, disconnected efforts for different groups or populations. There is little or no difference between special needs groups and the general population concerning the physical design and location of housing.

The differences in need relate to the amount, types, and duration of supportive services needed; variability should be accommodated in that regard, rather than through the creation or maintenance of several difference federal housing programs.

3. The papers speak to group homes as being small but not defining small. We suggest that small be defined as at least under sixteen persons so as to not penalize residents from receiving Medicaid benefits. As an attachment to this statement is a recent (September 14, 1988) NASMHPD staff analysis of existing inconsistent federal policies (HUD, SSI, Medicaid) on residential facility size limits.

SOME TECHNICAL ISSUES

There are several less "conceptual" or more technical issues as well that the Commissioners would like to mention; they are of no less importance because they are the key features of implementation that can result in the success or failure of any program.

1. Funding for the Handicapped Loan Program and the Elderly Loan Program should be distributed by formula, according to the process as established for the program, and simultaneously with the HOP program, in order to promote the linkage and integration of low-income housing development. States and localities that did not fully utilize the special "set-aside" loan funds would be required to return such allocations which could then be distributed by national competition.

2. Match requirements for housing production for states or localities should be as flexible as possible, particularly in light of the emphasis and requirement on states and localities for assurance of increased supportive services.
3. Housing production projects should be able to utilize more than one source of federally-supported housing development funds in the same project. Many potential housing development efforts are stopped because one source of production funds cannot be utilized with another.
4. Distribution or allocation of both types of rental credits (generic and "special needs") should be by dollar amount rather than tied to specific unit or family-size allocations. This would permit more flexibility and better targeting of needs in each community. An oversight/advisory mechanism should be set up to involve the community with the PHA in the targeting and distribution of the rental credits. We also are concerned that a five year pool of credits for housing which is to last 40 years is very risky.
5. Most noticeably in the McKinney Act on Homeless portions of the concept paper, but also apparent in other sections, there is emphasis on the state's role and responsibility to plan, strategize, coordinate, and monitor. The states welcome this role, but need to have it explicitly formulated and supported in federal legislation.

Federal funding that is allocated directly to local governments or private program sponsors mitigates the ability of the state to coordinate and assist in responding to unmet needs. Concomittantly, the clear need for education and training to increase expertise and the requirement to administer portions of funding requires administrative support assistance to states of the implementation of these programs is to be effective or efficient. We refer you to the September 21 testimony of the National Governors' Association regarding the importance of the states' role.

6. We also request that state housing finance officials, state mental health authorities and others be given adequate opportunity to comment on proposed regulations.
7. We propose that you include a provision in the Act for a formal relationship to be established between the Department of Housing and Urban Development and the National Institute of Mental Health in conjunction with state mental health directors to develop technical assistance to states for the development of supportive housing and that you require the National Institute of Mental Health in cooperation with HUD and the NIDRR to conduct research of the effectiveness of the current NIMH supported housing demonstration initiatives.

CONCLUSION

We commend you in the development of these concept papers and urge the passage of an Affordable Housing Act. We urge you to consider that persons with mental illness have a right to integrated, normal housing. We believe that the continued segregation of those individuals into "handicapped housing" will add to both the stigma of their illness and a continuing reminder to them and to us that they are disabled and cannot be a part of society.

Thank you.

September 14, 1988

A CATALOGUE OF "NOT NECESSARILY CONSISTENT" FEDERAL POLICIES ON RESIDENTIAL FACILITY SIZE LIMITS

- An "Institution for Mental Diseases" For Medicaid purposes must be more than 16 beds, which otherwise meets the federal definition of IMD.

Attached, on yellow, excerpts from P.L. 100-360.

- A "Public Institution" For SSI purposes does not include a "publicly operated community residence which serves no more than 16 residents."

Attached, on blue, excerpts from Section 1611 of the Social Security Act.

- A HUD financed Section 202 project "designed exclusively for the chronically mentally ill" may not be larger than 15 persons as a group home and 20 persons for an independent living complex.

Attached, on buff, excerpts from HUD's April 13, 1988 Section 202 Rules Federal Register.

- A HUD financed Section 202 project "for housing for the nonelderly handicapped (other than the chronically mentally ill) permit group homes to serve up to 15 persons on one site, and independent living complexes to include up to 40 units on one site."

Attached, on buff, excerpts from HUD's April 13, 1988 Section 202 Rules Federal Register.

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS
1101 King Street, Suite 160, Alexandria, VA 22314 Phone (703) 739-9333

- Current operational experience from the HUD Section 202 projects serving nonelderly handicapped persons is "the average number of bedrooms was 2.22 for project and the average number of persons per project was 2.2, or 1.2 persons per bedroom."

Attached, on green, excerpts from HUD's 1986 Section 202 Group Home Survey.

- HUD Permanent Housing for Handicapped Homeless Persons projects may not serve more than 8 persons. Congressional proposals would increase the limit to 12 persons (House Bill, H.R. 4351) or allow a maximum based on local market conditions and economies of scale (Senate Bill, S. 2504).

Attached, on white, are excerpts from P.L. 100-77 and NASMHPD's July 6, 1988 "U.S. Congress" bulletin on "Congress Moves On Housing."

- Senator John Chafee's (RI) proposed "Medicaid Home and Community Services Act" (S. 1673) would limit future Medicaid financing of community living facilities" to those with a number of beds which do not exceed 3 times the average family household in the area.

Attached, on pink, excerpts from NASMHPD's September 22, 1987 "U.S. Congress" bulletin on S. 1673.

Attachments are only for state mental health directors and members of relevant NASMHPD Committees (Medicaid; Financing and Coverage; Housing) and the CSP Division.

And, the reason for this inconsistency: different Congressional committees and subcommittees; different federal administering agencies; different interest group involvement; at different times.

Harry C. Schnibbe
Executive Director

E. Clarke Ross, D.P.A.
Assistant Executive Director
for Federal Relations

When we began, I found strong agreement that affordable housing must move back up on the national agenda. And as we continued, I found a growing and powerful consensus about the broad outlines of what the country must do to provide affordable housing for all Americans.

Of course, many elements of a new housing policy remain to be developed. Many areas of disagreement remain to be resolved. And some very difficult work remains to be done.

But I am more confident than ever that the country can have an effective housing policy. We can achieve it if those of us who care about decent, affordable housing continue to work together and with determination.

This is the time to begin developing specific legislation. A housing bill should be ready to move on a fast track early in a new Congress with a new President. I want to work with the new administration and other members of Congress to refine the legislation as soon as possible after the election.

I asked the Housing Subcommittee Staff to develop preliminary concept papers for a National Affordable Housing Act and to distribute them widely so that many can participate in shaping that legislation.

I greatly appreciate the fact that these concept papers are receiving thoughtful analysis. Many valuable recommendations have already been received.

I assure you that recommendations made in these hearings will shape our work as the Subcommittee expands and reformulates suggestions in the concept papers.

I feel very strongly that, as refinements are made, the new housing bill must continue to address several vital issues.

First, the new bill should be designed to provide the most housing over the long haul for those who desperately need it. We can not assume that some given level of funding will be provided for housing. Adequate funding will have to be won in a series of very tough budgetary struggles. Therefore, a new housing policy must get the most housing for the longest period of time for each federal dollar -- and the policy must build broad support around the country.

Second, the new bill should be designed so that federal housing assistance is an investment in affordable housing as a long term national asset. I agree with the strong consensus that we should provide more flexible federal housing assistance and give states and localities more responsibility for program design. But I am also well aware that some

powerful groups have long advocated a housing block grant as a transitional device to accelerate a final federal retreat from housing. We must resist that. We must take special care to make sure the new housing bill builds a reliable, long-term federal commitment to affordable housing.

And third, the new bill should more effectively combine housing and services for those with special needs -- particularly the elderly, the handicapped, and the homeless. Each of these groups has distinctive needs that deserve their own special attention. The new housing bill should ensure that HUD, at long last, is committed to providing supportive housing for Americans with special needs.

We are honored to have an outstanding group of witnesses this morning. Our first panel of witnesses includes leaders in housing for those who are elderly, those who are physically handicapped and those who are mentally handicapped. The second panel includes leaders in the struggle to provide decent housing for those who are the neediest and most vulnerable in our society. And our third panel is a group of housing leaders who are well equipped to consider national housing policy from the perspective of several key sectors of the economy.

I look forward with great anticipation to the testimony this morning. I thank you all for joining us.

Many organizations have asked to testify in these hearings. Since we've tried to accommodate as many as possible, we have a very full schedule. I ask each of you to summarize your testimony within five minutes so that we will have sufficient time for questions.

Now I think we'll go to you, Mr. Slemmer, for your testimony.

STATEMENT OF THOMAS W. SLEMMER, EXECUTIVE VICE PRESIDENT, NATIONAL CHURCH RESIDENCES; ON BEHALF OF THE AMERICAN ASSOCIATION OF HOMES FOR THE AGING

Mr. SLEMMER. Good morning. My name is Tom Slemmer and I'm the executive vice president with National Church Residences, an organization that sponsors and operates senior housing facilities across the country. I am here today representing the American Association of Homes for the Aging, [AAHA]. AAHA is a national association that represents over 3,200 nonprofit facilities that are providing housing, health care, and community services to about a half a million older persons every day.

We are really pleased to have this opportunity to share our views on the proposed National Affordable Housing Act. I want to commend you, your subcommittee and staff for an excellent job, in bringing attention to the issue and for developing an excellent concept paper. AAHA essentially likes the concept paper and we think this approach for proposed legislation is greatly needed. We want to tell you that we are here to support you and to work with you to get this proposed legislation.

I will briefly summarize our written testimony. I want to say that we are particularly pleased that one of the major components of this proposed legislation addresses the need to link housing with services for those with special needs, especially the elderly.

SENIOR CITIZENS

I believe that Mr. Smith of AARP will be talking more about the dramatic growth in the elderly population. Our AAHA members have felt the dramatic impact and growth in the senior population probably more than some other groups.

The senior population, as you know, has grown twice as fast as the rest of the population, especially in the plus-85 age group where we see a lot more frailness. In this population group in particular, we think that it is necessary to look to ways of providing supportive services.

Also, older people have substantially less cash than the rest of the population. About three-quarters of the elderly poor are women. Most live alone and with housing expenses that often exceed 50 percent of their income. Nearly half of all public housing residents are elderly. Almost half of all these new construction section 8 residents are elderly. Our member facilities are faced with a phenomena called "aging in place," where we have an elderly resident that may move in at 70, continues to stay there and ages there. There are estimates now that about 25 percent of the elderly in federally assisted housing now require some kind of support for them to live independently.

I think the rationale for linking housing and services is not only more humane, but also more cost-effective; especially when we consider that \$18 billion was spent by the Federal Government to support people in nursing homes over the past year.

Our country is also experiencing some shortages in nursing beds. We believe that there is a strong need for innovative alternatives

to institutional long-term care; and we believe that this proposed supportive housing program for the elderly that you have outlined in your concept papers is a much needed program.

AAHA basically supports the reforms identified in your concept papers, including the establishment of an Office of Assistant Secretary for Supportive Housing. We certainly support your concept of retrofitting existing facilities to accommodate supportive services, and we also support the reform in currently elderly housing production programs.

AAHA supports the subcommittee's approach of utilizing HUD funds essentially for development and management of rental assistance while looking to other public and private resources for financing the support services. We think that one of the keys to this approach is the inclusion of a service coordinator as part of the HUD budget so that we can provide some of these services.

REFORM FINANCING OF SECTION 202

We also are very much supportive of your program to reform the financing of the section 202 program as outlined in the concept papers. In 1979, there were 22,000 units of section 202 appropriated. This year there were less than 12,000 units. One of the consequences of the tremendous decline in Federal funding of section 202 has been extensive waiting lists throughout the country. We've seen estimates as high as a quarter million people in our waiting lists.

Senator Cranston, you might be interested in knowing that California is one of the areas most seriously affected. For example Cypress, an organization in Orange County, CA, just opened a 70-unit facility and already have 423 people on the waiting list. Further, this really doesn't include everybody that would want to get in that facility. These are probably the most aggressive older persons on the waiting list. There are examples like that all over California. I suppose, Senator D'Amato, that we could use the whole 12,000 unit allocation in New York City alone.

In addition to overall reductions in Federal funds, there's also been a series of administrative and regulatory actions that have restricted the use of these Federal funds, restricting calculating of development costs based on unrealistic fair market rents is a real problem. We think that 30 percent of the country has been "red-lined" so that we can't build housing in certain geographical areas. We have a facility in Waco, TX that was funded over 2½ years ago, yet it simply will not work. We cannot build that facility based on the calculation of fair market rents. So we sit on those funds and hope for some kind of reform in the program.

There are also some very serious unrealistic HUD cost containment requirements. Senator D'Amato, we just closed and started construction on two facilities in upstate New York, Waterford and Grandville, just north of the Albany area. Despite the fact that we all know there's a need for supportive services, those two proposed two-story buildings will have no elevators because of the cost containment programs currently required by HUD.

There are other problems with projects pending in the HUD section 202 pipeline. There are delays in the HUD allocations. We

think that there are now 30,000 units, or more than 3 years in the HUD pipeline that we need to have completed. Perhaps we can provide some of these pending projects with benefit of the proposed supportive housing.

One of the most critical needs is flexibility. One of the flexibilities that we've suggested is a need for economic mix in elderly facilities. In addition to the potential budget reductions and greater financial self-sufficiency, we think it's a healthier environment to have some economic mix in elderly communities. We'd like to discuss this need for flexibility with residential mix with you. I think we must find a way of economically mixing these low-income communities.

We certainly have concerns about prepayments and expiring rental assistance contracts. We would suggest a stronger role for nonprofits with potential prepayments in elderly housing. I think the nonprofits have had a tremendous track record of providing low-income housing for seniors.

To finalize, Mr. Chairman, we are really looking forward to working with you and your committee on this proposed legislation. We think it's long overdue. We think the country definitely needs it, and we congratulate you for this effort. Thank you.

[The complete prepared statement of Mr. Slemmer follows:]

TESTIMONY OF THOMAS W. SLEMMER
REPRESENTING THE
AMERICAN ASSOCIATION OF HOMES FOR THE AGING

Good morning, Mr. Chairman and members of the Subcommittee. My name is Thomas Slemmer. I am the Executive Vice President of the National Church Residency, a not-for-profit development and management company for elderly housing. I am pleased to be here today representing the American Association of Homes for the Aging (AAHA).

AAHA is a national association representing over 3,200 nonprofit facilities providing housing, health care and community services to more than a half million older persons daily. Seventy-five percent of AAHA homes are affiliated with religious organizations, while the remaining are sponsored by private foundations, fraternal organizations, government agencies, unions and community groups.

AAHA is pleased to have this opportunity to share our views on the proposed National Affordable Housing Act. We would like to commend you, Senators Cranston and D'Amato, for your vision and bipartisan leadership in forging a comprehensive reform of federal housing policies to address our nation's housing needs into the next century.

We would also like to commend your very capable staff for their efforts to solicit input and support from many diverse perspectives and for the drafting of this excellent concept

paper.

As you know, AAHA submitted a number of detailed recommendations last year in response to your invitation, and has worked closely with your staff and others in reaching a consensus on many of the recommendations contained in the concept paper that affect elderly housing.

AAHA supports the four guiding principles identified as a framework for the National Affordable Housing Act, and commits our efforts to work with this committee and the full Congress in ensuring that these much needed reforms are enacted. We are pleased to comment on several significant aspects of the "staff concept paper" - particularly those areas designed to enhance the well-being of older Americans.

Housing Needs of the Elderly

AAHA is particularly pleased that one of the major components of the proposed Affordable Housing Act addresses the need to effectively link housing with services for those with special needs, including the elderly.

Currently, there are about 30 million persons aged 65 and older. Each day 5,000 Americans reach the age of 65, resulting in a net increase of over a half million more older persons each year. During the last two decades, the older population grew more than twice as fast as the rest of the population. By 2010, because of the maturation of the baby boom, the population of older persons is projected to rise dramatically with 1 in 7 Americans age 65 and older.

Within the elderly cohort itself, the numbers of those aged 85 and over -- those who tend to be more frail and require increased support services -- is growing at an even faster rate. The 85 and older population is expected to triple from 1980 to 2010 and nearly quadruple by 2030.

Older persons have substantially less cash than the general population. In 1986, the median income of a family head aged 65 or older was less than two-thirds the income of a family head aged 25 to 64; 12.4 percent of persons 65 and older had incomes below the poverty level. It is estimated that approximately 2.3 million elderly households spent over 35 percent of their income for housing. Nearly three-fourths of the elderly poor are women; most live alone and with housing expenses that often exceed 50 percent of their income.

While older persons are more likely to be home-owners than renters, there is increased likelihood that older persons will rent rather than own as they grow older. Thirty-six percent of the homes owned by the elderly were built before 1940 and many are no longer suitable due to structural deficiencies, and excessive costs for maintenance.

Nearly half of all public housing residents are elderly, as well as half of all Section 8 new construction residents. As they "age in place" in federal assisted housing units, their need for support services has increased. Estimates show that about 25 percent of elderly persons in federally assisted housing require some assistance in daily living to remain

housing require some assistance in daily living to remain independent.

Aging in place is a problem affecting not only the elderly resident but also family, friends, and service providers. The average age of residents at many elderly housing sites has reached the late seventies and early eighties. This increased age taxes existing formal and informal services and places enormous burdens on housing managers who are often ill-equipped to handle the increased need. While support services may be available in the community, they may be difficult for housing residents to access due to administrative constraints.

The rationale for linking housing and services is not only more humane, but the enormous cost of institutional long-term care can provide a powerful financial incentive for the development of alternative services which allow older people to remain in lower cost housing. The cost to the federal government of nursing home care in 1986 was nearly \$18 billion. Escalating costs and critical shortages of nursing home beds in many sections of the country have created pressure to initiate innovative alternatives to institutional long-term care.

Though nursing homes provide an important service, most experts recognize that institution-based solutions to long-term care problems are often over-utilized, and less restrictive options are unavailable. The most credible research estimates that 20 percent to 30 percent of the 1.5 million residents in long-term care facilities could undoubtedly live in a less

restrutive environment if supportive services were available.

A number of successful models linking housing with long-term care services have been developed by government and nonprofit organizations. Examples include congregate housing and continuing care retirement communities.

We believe that the supportive Housing Program for the Elderly as outlined in the concept paper is a timely and much needed reform.

Although AAHA supports the major reforms identified in the concept paper, including the establishment of an Office of Assistant Secretary for Supportive Housing, the concept of retrofitting existing facilities to accommodate supportive services, and reforming current elderly housing production programs, we would like to offer the following recommendations for your consideration.

Assistant Secretary for Supportive Housing

AAHA supports the establishment of the Office of Assistant Secretary for Supportive Housing within HUD as a "hot spot" for focusing federal action on special populations. We agree that having discrete programs for the elderly, handicapped and homeless within the Office of Supportive Housing will facilitate the development of programs tailored to the particular needs of each of these special populations.

It is particularly critical that the new Assistant Secretary have sufficient authority and resources to establish effective linkages with other relevant agencies, such as the

Department of Health and Human Services, and other federal, state and local agencies to coordinate essential supportive services. In addition to the direct administration of HUD programs affecting the elderly, we believe that the Assistant Secretary should serve as a visible focal point within the federal government for advocacy and leadership in coordinating federal efforts to meet the special housing needs of the elderly.

Supportive Housing Services

AAHA supports the Subcommittee approach of utilizing HUD funds essentially for development, management and rental assistance, while relying primarily upon other public and private resources to finance support services. As outlined in the concept paper, a key component for supportive housing projects would be the inclusion of a service coordinator as part of the project management team. While AAHA agrees with the basic responsibilities and qualifications of the coordinator, we would strongly recommend that the system for financing the coordinator's salary be the same as with other management staff.

AAHA endorses the concept of adapting existing elderly housing projects to accommodate supportive services to enable frail elderly residents to age in place. In many respects, the supportive services program is modeled upon the successful experience of the Congregate Housing Services Program (CHSP), and other state and local programs which has demonstrated their effectiveness

Senator CRANSTON. Thank you very much.
Mr. Smith.

STATEMENT OF LEO SMITH, TRAINER-ORGANIZER, CONSUMER HOUSING INFORMATION SERVICE FOR SENIORS, ON BEHALF OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. SMITH. Mr. Chairman, I'm Leo Smith. I'm a volunteer with the Maryland Consumer Housing Information Service for Seniors and the American Association of Retired Persons.

AARP commends you and Senator D'Amato for your bipartisan leadership in focusing attention on the need for a new national housing policy.

The rapid aging of the American population poses a major challenge to housing policy makers. The number of households headed by persons aged 65 and over is projected to rise from 16 million to nearly 24 million from 1980 to the year 2000. The highest growth rate will be among women who are age 75 and above. They live alone and these people tend to have the highest rate of poverty and problems with personal care and home management.

AARP commends the subcommittee for your concept paper released last month outlining a program of strong leadership by the Federal Government in partnership with private developers, non-profit sponsors, and other levels of government.

Specifically, we strongly support provisions that would:

(1) Establish an Office of Supportive Housing headed by an Assistant Secretary to coordinate social services with housing for older and disabled people.

(2) Streamline the section 202 program to eliminate the current redundant financing system and counterproductive cost containment measures.

(3) Establish an Office of Affordable Housing Preservation to address the problems due to contract expiration and loan prepayment under Federal assistance programs, many of which serve large numbers of older people.

(4) Restructure vouchers to address the needs of disabled, people living in the community by integrating services and rental credits.

AARP supports the establishment of an Office of an Assistant Secretary for Supportive Housing to administer programs for the elderly and the handicapped and to coordinate housing with service programs.

In providing services to the disabled we are pleased that the subcommittee's concept paper builds on the success of the congregate housing services program. The CHSP has successfully enabled thousands of frail and disabled residents of federally assisted housing to live independently and to stay in place.

Two of the federally assisted sites are in my home state of Maryland. If you'll note the photos on my right, the center photo in the last one on the right is a picture of Leonardtown, MD congregate site. That's a site for the mentally disabled, and it's a very, very successful program.

The other site is in the city of Baltimore in public housing.

I would like to stop my testimony just for a minute and I'd like to tell you something from my own personal experience. There's a

lady in Waldorf named Mrs. Estie Brown. Now Estie is a widow. She is disabled, and as far as I'm concerned she's homeless. She's living in a home with her son. The house has one bedroom and Estie sleeps on the sofa and she is utterly miserable. You'd only have to talk to her to feel in your heart just how bad that woman feels because she's lost her independence simply because her husband died.

Now in Waldorf and in Charles County, there are two senior buildings, one under 202 funds and the other the JC's built. Both of these facilities have no congregate housing and waiting lists up to 3 years, and there's 145 people on the waiting list for the voucher system in Charles County. Estie has no chance now to regain her independence until this committee probably takes some action so more affordable housing will be available.

With regard to the section 202 program, AARP is gratified that the subcommittee proposes replacing the current redundant financing mechanism of loans and section 8 subsidies with deferred payment loans. AARP also urges the subcommittee to further streamline the cost containment procedures under section 202 which have delayed construction and undermined vital aspects of the program.

Once again, Mr. Chairman, the AARP commends your leadership in looking to America's future housing needs and thanks you for this opportunity to testify today.

Thank you.

Senator CRANSTON. Thank you very much, and thanks for hitting the 5 minutes on the nose. I appreciate that.

Mr. SMITH. I practiced.

Senator CRANSTON. Like the debaters.

Mr. SMITH. Right.

[The complete prepared statement of Mr. Smith follows:]

CHSP provides nonmedical, in-home services to residents of federally assisted housing in an attempt to prevent unnecessary institutionalization and improve the quality of life for frail residents. The results of an independent evaluation found that the rate of institutionalization can be cut almost in half by the introduction of CHSP services. The CHSP has also made it possible to deinstitutionalize many nursing home residents, since administrators at sites with CHSP services were six times more likely to admit nursing home residents as those who did not have such services to offer. AAHA would recommend that the present 60 CHSP projects be grandfathered into the new Supportive Housing Program.

Because of the wide divergence of public and private agencies involved with funding or providing supportive services, AAHA would recommend a five year plan with annual adjustments as a requirement for participation in the Support Service Program, rather than a specific five year funding commitment from any single funding source. This approach would allow maximum flexibility with assurance of continuity of support services. AAHA supports the development of effective approaches for pooling and coordinating the financing of supportive services, including options for developing social service fees similar to rent subsidies.

Project Retrofit

The need to adapt existing senior housing projects to accommodate support services has become increasingly evident.

As outlined in the concept paper, retrofitting includes both changes in the physical structure of the facility, as well as in the management and services being offered.

While we generally support the approach as outlined by the staff, we would recommend that the special grant monies for structural changes be processed through a new title within the Section 202 program. In addition to facility changes to accommodate support services needs of the frail elderly, AAHA would recommend retrofitting funds be used for needed modernization or rehabilitation of federally assisted senior housing facilities. We would also suggest that retrofit funds could be provided as matching funds with other public or private resources to construct or rehabilitate senior community centers within or adjacent to the existing senior housing facility. These senior centers could serve both residents of the facility and the community, and operate as a focal point for supportive services provided by various public and private community agencies.

Section 202 Reform

AAHA strongly endorses the financing reform of the Section 202 program outlined in the concept paper. Although other federal programs provide more units of assisted housing for older people, Section 202 has been viewed as the centerpiece of federal housing production policy for older American.

The program has undergone a number of changes since its enactment in 1959. In 1974, the Section 202 program was

revised and substantially altered by linking it to Section 8 rent assistance. In 1981, the income eligibility for federally assisted housing was reduced from 80 percent of the median income to 50 percent for new tenants. Because of this targeting restriction, the Section 202 program's mission was transformed from one focused on independent living for low and moderate income elderly to one of providing minimum housing for the very low income elderly. Therefore, not only were the low and moderate income older persons squeezed out of affordable housing, but the role of nonprofit sponsors was also altered.

Since 1979 when funds for 22,000 units of Section 202 were appropriated, there has been a steady decline in the number of units funded. One consequence of the reduced federal funding for Section 202 has been the extensive waiting lists experienced by many projects. There are currently over a quarter million persons (270,000) on waiting lists with an average of only six Section 202 units for every 1,000 eligible older person. Less than 20 percent of the units becoming available each year due to turn over, and most facilities are faced with multi-year waiting lists.

It is important to note that these waiting lists represent only those older persons who choose to or who are able to apply. They do not include those who are discouraged by the prospect of a long waiting period, or those unable to apply to projects whose waiting lists have been cut-off.

We would also note that the waiting list includes only

those who meet the eligibility requirements for Section 202 housing, and therefore, does not consider the many "near poor" older persons who are unable to afford suitable housing; that is, those between fifty and eighty percent of an area's median income.

In addition to overall reductions in federal funds, there have also been a series of administrative and regulatory actions which have restricted the use of Section 202 funding. Restrictions in calculating development cost based on unrealistic fair market rents, unrealistic HUD-imposed cost containment requirements, and delays in processing applications have all contributed to a reduction in the cost effectiveness of the Section 202 in the past few years.

AAHA believes that a long term forgivable loan to nonprofit sponsors for 100 percent of a project's development costs is a much needed reform of the Section 202 program. We support the approach outlined in the concept paper of separating the Section 8 rental subsidy program from the Section 202 loan, instead, and providing operating subsidies. Deferring the loan for twenty years with provisions for a gradual forgiveness of the loan over the remaining 20 years based upon the number of low income elderly tenants will enable sponsors to reduce rents, simplify finances, and increase the number of elderly that could participate in the program at a given level of budget authority. Additionally, we strongly support the mechanism outlined in the concept paper for calculating development costs based on actual

costs rather than the present fair market rent system.

Need for Flexibility

AAHA would like to underscore the need for flexibility in allowing for local adaptation as one of the four guiding principles of housing reform. Flexibility can stimulate innovative approaches for developing financially sound suitable and affordable housing options. AAHA recommends that sponsors be provided with incentives and flexibility to develop the most cost effective and efficient facilities. One area of particular concern regarding reform of federally assisted housing is the need for mixed income facilities. In addition to potential budget reduction and greater financial self-sufficiency and thereby reducing of the projects, AAHA is also concerned with the social-economic characteristics of the facility in promoting vitality and informal support systems that create as positive linkages with the surrounding community.

Similarly, AAHA would recommend incentives and flexibility for sponsors in attracting other public and private resources into the facility, including construction of adjacent "community-owned" senior center. For example, we would urge the Subcommittee to examine possible incentives for sponsors in developing ways to attract private ownership by older residents of the units in the facility. Under such a system, a small percentage of units could be sold to older persons using the equity of their former homes. The deed on this privately owned unit would have a covenant to require that it must be sold to

another older person or the nonprofit sponsor of the facility. These units would be linked together as part of a cooperative. This mix of ownership and rental would not only provide capital for development and operations, but also provide another housing option for older persons in their community.

Additionally, because of the importance of linking elderly housing with the surrounding community, we urge the Subcommittee to explore ways for the adaptive reuse of existing buildings for elderly housing. The adaptive reuse of such existing facilities as vacant schools, factories, hotels and office buildings is mutually beneficial to the elderly and community. Several outstanding models which employ this concept are being efficiently operated throughout the country. AAHA would be happy to provide the committee with a list of such projects.

Other Considerations

In addition to these comments, AAHA would like to offer for consideration, several other concerns and recommendations on some related issues. These include options to amend existing contracts, concerns for prepayment and expiring rental assistance contracts, and the role of nonprofits. First of all, AAHA would recommend that consideration be given to enable existing 202 projects and those still in "HUD pipeline" (sponsor's applications which have not yet been developed), the option to amend their projects to incorporate reforms provided in the National Affordable Housing Act.

Secondly, AAHA supports the approaches outlined in the

concept paper to preserve existing stock of low income rentals. A recent study by the American Association of Retired Persons (AARP) indicated that over 75,000 units of the nearly 115,000 at risk units occupied by older residents are likely to prepay. If this occurs, we fear that many older residents face the prospects of increased rents or displacement. AAHA would urge that a "first right of refusal," as well as other incentives be provided to nonprofit organizations to acquire and maintain these units for low income rentals.

In addition to the threat of displacement due to prepayment, many older tenants may experience significant rent increases due to expiring Section 8 rent subsidies. Nearly half of the elderly residents in Section 221(d)(3) and the Section 236 projects have Section 8 rent subsidies. AAHA would urge the extension of these contracts or the development of a transitional rental assistance program to keep these units affordable to low income residents.

Finally, AAHA is pleased that the bill recognizes the significant role of nonprofits in providing suitable and affordable housing. We support the flexibility provided in the proposed Housing Opportunity Program (HOP). We would recommend, however, that at least 25 percent of funds be provided to nonprofit organizations. Additionally, we endorse the use of federal tax policies as an incentive to build public-private collaborative efforts for long-term commitments of affordable housing for low and moderate income elderly.

Nonprofit sponsors have demonstrated through the years a commitment and capacity for developing and operating quality housing for older residents. With strong community involvement and long standing community ties, AAHA's nonprofit members are committed to serve the whole individual. These programs recognize that the physical, social, emotional, and spiritual needs of their residents are all inclusive in the need for shelter. For nonprofit sponsors the bottom line is the quality of life care for our residents.

Mr. Chairman, the American Association of Homes for the Aging (AAHA) congratulates the Subcommittee on Housing and Urban Affairs for its leadership in looking ahead to the future housing needs of the nation. We look forward to working with the Subcommittee in developing affordable housing legislation addressing the housing needs of all Americans.



STATEMENT
OF
LEO SMITH
THE AMERICAN ASSOCIATION OF RETIRED PERSONS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
U. S. SENATE
SEPTEMBER 28, 1988

Mr. Chairman, I am Leo Smith, a volunteer with the Maryland Consumer Housing Information Service for Seniors (CHISS) of the American Association of Retired Persons (AARP). AARP appreciates this opportunity to testify on the future direction of the nation's housing policy.

First of all, we would like to commend you for your leadership in focusing attention on the need for a new national housing policy. After years of serious neglect, the housing needs of Americans of all ages must be addressed.

The rapid aging of the American population poses a major challenge to our nation's housing policy makers. Harvard University's study of "The State of the Nation's Housing," released earlier this year, projected that the number of households headed by persons aged 65 and over will rise 48% between 1980 and 2000 -- from just over 16 million in 1980 to nearly 24 million. Two-thirds of the increase in older households will be among those living alone, three-quarters of whom will be age 75 and above.

The groups having the highest growth rates -- women, aged 75 and above, living alone -- also tend to be the groups having the highest incidences of poverty and problems with personal care and home management activities. Among older women living alone, 50 percent have incomes below 125 percent of the poverty level; approximately one-third have difficulties with personal care and or home management activities.

The combination of needs experienced by these people is not likely to be adequately addressed by the private market alone. Those who are likely to be left out by the private market are the oldest, the poorest, and the frailest who have the most acute housing needs. Meeting these needs will require strong leadership by the federal government in partnership with other levels of government, private developers, and nonprofit sponsors. This partnership must be forged by the use of a variety of tools, including tax policy, loans, grants, and other incentives.

AARP commends the direction of a future housing policy outlined in the concept paper released last month by this Subcommittee. Specifically, we enthusiastically support provisions of the concept paper that would:

- o Establish an Office of Supportive Housing, headed by an Assistant Secretary, as one of the "hot spots" for concerted effort at HUD;
- o Streamline the financing and selection processes under the Section 202 program to promote effective service to older and disabled residents;
- o Establish an Office of Affordable Housing Preservation at HUD to prevent the displacement of thousands of low-income tenants of all ages due to the expiration of rental assistance contracts and the prepayment of subsidized mortgages; and
- o Structure rental vouchers more effectively to address the special needs of disabled people living in the community.

Supportive Housing

Housing for the elderly, handicapped and homeless should be recognized as a distinct and specialized area within federal housing policy. HUD's current structure lacks a focal point for the integration of housing policy with service programs aimed at meeting the needs of such populations. AARP supports the establishment of an Office of the Assistant Secretary for Supportive Housing to administer programs for the elderly and handicapped and coordinate housing with service programs. We would also urge the Assistant Secretary to monitor the displacement of older and disabled residents of federally assisted housing undergoing prepayment or contract expiration.

One of the largest challenges facing managers of federally assisted housing is providing for the special needs of older tenants who are "aging in place." Currently, almost 40 percent of all households in public housing and 50 percent of all housing units in Section 8 new construction are occupied by older persons. Preliminary data from a national survey of Section 202 housing sites being conducted by the University of Illinois, Champaign-Urbana indicates that three-quarters of all residents are aged 70 or over. The managers surveyed indicated that one-third of these residents needed some form of supportive services -- a number that grew to 50% for those 80 and above. Costly institutional care should not be the only alternative for these frail tenants.

Senator CRANSTON. Mr. Sherlock.

STATEMENT OF PAUL SHERLOCK, MEMBER, GOVERNMENTAL AFFAIRS COMMITTEE, ASSOCIATION FOR RETARDED CITIZENS OF THE UNITED STATES

Mr. SHERLOCK. Thank you very much, Senator Cranston and Senator D'Amato and Senator Sarbanes. I deeply appreciate the opportunity to be here with you today on this very, very important policy matter.

The last time we had a chance to be together, Senator Cranston, we had one of your famous runs for peace through Lake of Woods with Senator Pell about 4 years ago and I enjoyed that very much and I'm deeply appreciative of all your efforts in this area.

Senator CRANSTON. Thank you very much.

Mr. SHERLOCK. I'm a former president of the Rhode Island State Association for Retarded Citizens, a member of the Rhode Island State legislature and the parent of an adult son with mental retardation. Today I'm representing the Governmental Affairs Committee of the Association for Retarded Citizens of the United States.

We in the ARC, are deeply interested in this issue because it affects so many of our constituents, those individuals with mental retardation.

Recently, in fact in 1987, the ARC did a waiting list needs assessment survey which identified, within the study, over 60,000 persons with mental retardation who have very particular and growing housing needs and who are on waiting lists for residential services.

Numbered among those with concerns for supportive community based housing are the parents who are growing into their elderly years, who have kept faith with their children. These are people whose children never ever appeared in any of our State institutions but who thrived on the special education system in the country. As they and their parents grow older their community based housing and service needs really become dire.

We have not paid as much attention to these folks because in fact we have often concentrated on deinstitutionalization, and most of the focus on housing has been on placing residents from institutions into the community. Truly, we have two populations which need focus within the housing area.

We have experience in the ARC with the section 202 program. We were instrumental in the expansion of section 202 to include housing for individuals with disabilities. We've run projects. There were 8 HUD projects for persons with mental retardation funded last year. Thirty-one of them are ARC sponsored. We have this experience, plus our participation is an ongoing technical assistance project designed to increase housing options for individuals with disabilities. During our history of involvement, we have experienced certain difficulties with the current 202 system. I think the proposals that you have placed before us, the new national affordable housing policy, really addresses many of the issues that need to be taken care of because the system is not as effective as it needs to be and certainly we need to streamline if it is to be effective.

We are very hopeful that you succeed with this forward thinking legislation. It has some components that are very exciting. We think that the proposal for a new Assistant Secretary for Supportive Housing is essential to the success of any future efforts on behalf of the disabled and their housing needs. We need both advocacy and expertise at the highest levels of government policy making at all other levels for successful implementation. That's one of the needs that is not being served currently and I think filling that gap will go a long way toward aiming us in the right direction as many of the other features of the bill will.

SUPPORTIVE HOUSING

The supportive housing dimensions of the bill are truly exciting and represent the future for us because it recognizes and places focus on the reality that the bricks and mortar and the lumber and plaster are really only one piece of the program for people with disabilities. It will not be successful without the supportive services components which will really help people with disabilities to achieve the true independence that we know you believe in and we believe in.

Those supportive housing features of the bill are particularly important and not only need to be maintained but strengthened so that everyone understands that we intend a national policy that isn't going to place people with mental retardation on a doorstep but leave them dependent and unable to achieve the intent of the bill which appears to be independent living.

We are deeply appreciative of the efforts. We want to share the expertise that we've developed while working with the section 202 program. We hope that you continue to call upon us as this very important legislation is refined and we will remain available to you for whatever assistance is necessary to achieve the passage of this act during the 101st Congress

Thank you very much, Senator Cranston.

Senator CRANSTON. Thank you very much. I appreciate your testimony.

[The complete prepared statement of Mr. Sherlock follows:]

Housing must be an important part of a comprehensive long-term care policy -- not only for the elderly but also for others requiring long-term care, such as the handicapped, the developmentally disabled, and the chronically mentally ill. Fortunately, successful models exist for the integration of housing and services to meet long-term care needs. Particularly promising has been the federal Congregate Housing Services Program (CHSP), which has been operating on a demonstration basis at 60 sites nationwide for the elderly and handicapped.

AARP is pleased that the concept paper builds on the success of the CHSP and similar state-level programs by:

- o Adding services coordinators as part of the housing management team;
- o Maintaining control and flexibility with the local sponsor to meet differing resident needs, based on social services availability and management philosophy;
- o Providing special initiatives grants to promote creativity and temporarily fill in the gaps in existing local services; and
- o Including modernization and retrofitting funds to meet the capital costs of services provision.

By shifting responsibility to the sponsor to obtain commitments for services, we are acutely aware that services-poor areas will not be able to take advantage of the supportive

housing program until comprehensive, community-based long-term care legislation is passed. Many communities will, however, be able to move ahead with supportive housing programs in the meantime, providing successful models for future expansion.

We encourage the extension of this program to as many types of federally assisted housing as possible, including public, Section 202, state-financed Section 8, FmHA Section 515, and Indian housing. We are especially concerned about underserved minorities and would endorse the use of some of the special initiatives grants to address the needs of hard-to-reach and ill-served populations such as older farmworkers and older Native Americans. However, we would not want to see supportive housing options financed by the diversion of much needed funds from the production of new housing for older and disabled people under the Section 202, FmHA 515, or other housing production programs.

Section 202

The Section 202 program of elderly and handicapped housing has been the most successful model of federal cooperation with nonprofit housing sponsors. AARP is gratified to see that the Subcommittee concept paper envisions replacing the current duplicative financing mechanism of loans and Section 8 subsidies with a deferred payment loan plan. Under this plan, the loan would be forgiven over a 40-year period as long as the sponsor continued to serve low-income older and handicapped persons. Large Section 8 subsidies would be replaced by relatively small

operating subsidies because costs would no longer reflect debt servicing.

We are also pleased that the current use of fair market rents (FMR) to calculate construction costs would be replaced by an index reflecting the actual, reasonable cost of developing such housing. In addition, AARP urges the Subcommittee to streamline the cost containment procedures under Section 202, which, along with the FMR construction cost calculation, has contributed to long delays in moving projects to construction.

Cost containment regulations have also been used to undermine vital aspects of the program. In the University of Illinois study of Section 202 sponsors, nearly half (45%) of the respondents indicated that they were forced to reduce or eliminate congregate spaces, 38% were forced to build smaller units, and 10% eliminated elevators, primarily in two-story buildings. Shockingly, more than one-third (36%) of the sponsors reported that they had been forced to use lower quality construction materials. Sponsors should be given greater latitude to make basic decisions over such issues as size or style of units, amount of common space, and facilities provided.

Maintaining the Existing Stock of Assisted Housing

AARP is very concerned about the potential impact of prepayment, of the expiration of Section 8 contracts and the deterioration of public housing units. We applaud the establishment of an Office of Affordable Housing Preservation as one of three "hot spots" at HUD.

Older tenants who live in assisted projects are especially vulnerable to displacement and often lack the ability to easily relocate or to pay substantially higher rents. The National Low-Income Housing Preservation Commission (NLIHPC), Chaired by former HUD Secretary Carla Hills and former Representative Henry Reuss, identified large families and the elderly as particularly vulnerable to losses associated with prepayment of loans under the Section 236 and Section 221 (d) 3 programs. Single-person elderly households occupy one-fourth of the units assisted under these programs where prepayment is likely to occur. In addition, almost half (48%) of the units provided under the FmHA Section 515 program are occupied by older tenants. Half of those projects are already eligible for prepayment and displacement is already occurring.

The inclusion of prepayment provisions in Title II of the recently passed Housing Bill is an important first step to preserve assisted housing units. AARP supports the approach to the preservation of low-income housing outlined by the NLIHPC. We call upon Congress to provide additional budget authority and appropriations to maintain at-risk units as low-income housing. AARP also opposes the sale of public housing units when older residents would be displaced. The public housing modernization program should be fully funded with a special emphasis on retrofitting units to meet the needs of the large number of older and disabled residents.

Rental Credits

In proposals submitted a year ago to this Subcommittee, AARP suggested changes to the voucher program that would combine a specified number of vouchers with counseling and supportive services targeted to low-income individuals with multiple disabilities and those living alone with limited support. We are pleased that the concept paper includes proposals very similar to this model in the targeted pool of "rental credits" for the handicapped. We would urge the Subcommittee to explicitly declare frail elderly persons in the community to be eligible for the "rental credit" pool. In addition, we would hope to see the supplemental administrative reimbursement provided for serving persons with disabilities.

A report on the first year of the voucher program by Abt Associates noted the program's success in assisting older residents who wished to "age in place" in their current residences and neighborhoods. While the voucher model is not a replacement for the production of specialized supportive housing, it can help those whose deteriorating financial circumstances make "aging in place" a challenge. With the suggested adaptations, vouchers or "rental credits" can also be effective in helping to maintain the independence of those whose disabilities would otherwise make living in the community an impossibility.

Conclusion

Once again, Mr. Chairman, I would like to commend your leadership in looking to the nation's future housing needs and thank you for the opportunity to testify before you today. We look forward to working closely with you, with other members of Congress, and with the incoming Administration in developing viable solutions to our nation's housing problems.

TESTIMONY
ON
PROPOSED AFFORDABLE HOUSING ACT
SUBMITTED BY
THE ASSOCIATION FOR RETARDED CITIZENS OF THE UNITED STATES
BEFORE
THE SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

Wednesday, September 28, 1988

9:30 a.m.

Presented by:

Dr. Paul Sherlock
Member
Governmental Affairs
Committee
Association for Retarded
Citizens of the United
States

Mr. Chairman, Committee Members ... I am Paul Sherlock, a member of the Governmental Affairs Committee of the Association for Retarded Citizens of the United States. In addition to this, I am also the father of a son with mental retardation, former Chair of the Special Education Department at Rhode Island College, Past-President of the Rhode Island Association for Retarded Citizens, and a 10 year member of the Rhode Island State Legislature where I am Deputy Majority Leader and Chairman of the House Finance Committee Subcommittee on Human Services.

I am pleased to be here today to take part in these hearings addressing the need for a new national housing policy. I am here specifically to address the proposed portion of this policy that relates to supportive housing for individuals with disabilities, with emphasis on the needs of persons with mental retardation.

The Association for Retarded Citizens of the United States is a national voluntary organization that has, since its founding in 1950, represented and promoted both rights and services for persons with mental retardation and their families. National membership in the ARC numbers over 160,000 with 1,300 local and state chapters. Because of its active participation in public policy making, the ARC has been recognized in every forum, including Congress, state legislatures, rulemaking proceedings, and in the courts as fully representative of the interests of individuals with mental retardation and their families.

There is a dire need for appropriate community-based housing for persons with mental retardation and other disabilities. The results of a 1987 ARC waiting list survey

demonstrate this need in the area of mental retardation and indicate that over 60,000 persons were then waiting for residential services. It is important to understand that waiting list data most often underestimate the true extent of a need. Because of this critical need, any efforts related to the development of housing are of high interest to, and a high priority with, the ARC.

The Association for Retarded Citizens of the United States has a long history of involvement with issues that relate to the provision of housing for persons with disabilities. The ARC was instrumental in the enactment of legislation to expand the Section 202 program to include housing for individuals with disabilities in 1974. Since that time this program has been a continuing primary resource for the development of community living options for persons with disabilities.

Since the inception of the Section 202 program, ARC chapters have applied for and received funding from the Department of Housing and Urban Development to develop a range of community-based housing options for individuals with mental retardation. Last year alone, 84 projects for persons with mental retardation were funded by HUD. Of these, 31 were ARC sponsored.

At the present time, the ARC is also a sub-contractor to a HUD sponsored technical assistance project coordinated by the National Association for Home Builders National Research Center. This project was initiated by the ARC through legislative language in the Housing and Community Development Act of 1987. It is designed to increase affordable housing opportunities for individuals with disabilities and their families by developing a workable nationwide partnership between home builders and

disability groups.

The ARC's position is that the Department of Housing and Urban Development's current efforts to implement the Section 202 program - despite the benefits that have accrued because of them - are problematic. Not only is there no clear focus on these implementation-difficulties at the national level within HUD, there is also currently a breakdown at the local level as applicants become mired in a sea of red tape. Because the original Section 202 program was geared to provide housing for the elderly (with housing for individuals with disabilities as a later add-on) disability groups that have an interest in providing housing options are starting at an inappropriate baseline. Also, especially during the Reagan administration, this program has experienced a gradual erosion of both dollars and units available with expansion of housing impossible; and housing sponsors forced to hold the line as best they can. Finally, the drop in available Section 8 subsidies (be they vouchers or certificates) which are an essential link in Section 202 development and in packaging housing, as well as the lack of monies for support services - the crucial element for appropriate community-based housing for persons with mental retardation - have been a major detriment to development.

I want to commend both Senator Cranston and Senator D'Amato for their interest in this important issue. I am hopeful that your proposal and these hearings will provide the impetus for sound housing legislation in the next Congress that, when enacted, will begin to meet the housing needs of persons with disabilities, by reinvigorating the development of appropriate community-based

Senator CRANSTON. Senator Heinz, do you have any remarks?

Senator HEINZ. No remarks. Some questions, though, at the appropriate point.

Senator CRANSTON. Go ahead.

Senator HEINZ. Thank you, Mr. Chairman.

First, let me ask Mr. Slemmer or Mr. Smith, do you have any estimates of the savings possible if the 20 to 30 percent of the 1.5 million in long-term care facilities were transferred to housing with supportive services such as the congregate housing program that Senator Cranston and I and others have been much involved in trying to preserve?

Mr. SMITH. I don't have fiscal numbers that I can give you, but what I can tell you is what it means to senior citizens, the elderly. Would you like that answer?

Senator HEINZ. Well, I know what it means to senior citizens because I've visited programs all over the United States and it means tremendous improvement in their independence, their dignity and in fact their health because they are not confined to an institutional setting. And with the provision of those services, they can lead both physically and mentally healthier lives.

So if that's what you mean, I think I have a grasp of that.

Mr. SMITH. That's exactly what I mean.

Senator HEINZ. And I think anybody who's seen those programs in operation would share that. I'm interested, though, because frankly it's been a battle each year, particularly in the appropriations process, to keep that small demonstration program alive.

What I'm looking for are some numbers which we can use to convince our colleagues that these are just not nice ideas that make people feel good in talking about them but they actually have some fiscal benefits as well.

Mr. SMITH. I will get back to you with that.

[The following material was subsequently submitted for the record:]

[COMMITTEE PRINT]

DIGNITY, INDEPENDENCE, AND COST-EFFECTIVE-
NESS: THE SUCCESS OF THE CONGREGATE HOUS-
ING SERVICES PROGRAM

A REPORT

BY

THE CHAIRMAN

OF THE

SUBCOMMITTEE ON
HOUSING AND CONSUMER INTERESTS

OF THE

SELECT COMMITTEE ON AGING
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION



DECEMBER 1987

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CHAPTER IV

THE SUCCESS OF THE CHSP: COSTS AND SAVINGS

From an administrator in Storrs, Connecticut:

This is a case of a 46 year old woman with multiple sclerosis. She has been living at Juniper Hill Village since 6/1/81 and has been on the meals program since it started. Her parents also live here at Juniper Hill. Before the CHSP started, her mother was preparing all of her meals but, due to failing health, [her mother] is also on the program.

Total cost to participant:	
12 months.....	\$1,901.85
1 day	5.20
Subsidy cost [services and rent]:	
12 months.....	6,817.65
1 day	18.67
Nursing home cost:	
12 months (approx.).....	27,375.00
1 day	75.00

No research has adequately answered the question of whether or not the CHSP as a program can save the taxpayers money when compared with alternative service programs, especially nursing home care. We are forced, therefore, to rely on partial answers and estimates which are closely linked to assumptions about: (1) levels of services, (2) costs of these services, (3) inclusiveness of the cost analysis (e.g., are capital costs or medical expenses included?), (4) length of time services are necessary, and (5) effectiveness of the targeting of the services. To understand the range of cost analyses on programs such as the CHSP requires careful scrutiny of these assumptions and methods.

To summarize the discussion that follows, several conclusions can be made on the basis of current research about the cost effectiveness of the CHSP and similar programs:

- When the questions asked and the assumptions made are similar, the results from a variety of states and localities are very similar.
- Every study reviewed, including the HUD report, found significant cost savings for congregate housing with services over nursing home care when costs were compared for typical individual service recipients over a specified period of time. The most tightly controlled study, which scrupulously accounted for all costs and savings, conservatively estimates the savings of congregate housing to be \$4,233–\$5,880 per person per year.
- Conclusive data on the relative costs of congregate housing as a program versus the status quo are unavailable. The HUD researchers did not collect the data needed to do an adequate cost-benefit analysis. Their cost comparison, which suggests

that CHSP as a program is more expensive than the expected rate of institutionalization, was intended to illustrate the effects of targeting and does not provide an adequate basis upon which to judge the program. As a cost comparison, the analysis by the HUD researchers is seriously marred by errors in data and calculation, omissions of important data, and problematic assumptions.

- The rough estimates used by the HUD report call attention to the importance of careful targeting of services if money is to be saved. The researchers applaud trends toward more effective targeting already taking place and recommend more efforts to admit residents from the ranks of those unnecessarily institutionalized.

COST CALCULATION TYPE 1

The simplest way to calculate cost comparisons (and the way that most exaggerates the savings of the CHSP) is to compare costs of CHSP-type services with nursing home care for a typical individual over a specified period of time. On this basis, New Jersey (Heumann, et.al., 1985, p. 74) found that in 1982-83 the average costs of limited congregate services was \$6 per day per person (of which \$2.26 was paid by the tenant) compared to \$41-\$44 average daily cost for intermediate nursing care, a savings of 85%. These figures are roughly comparable to those in the HUD report which indicated an average daily cost of \$6.80 for the CHSP versus \$36 for nursing home care. This cost calculation is of limited use for policy decisions because it does not include such costs as housing, health care, and other services.

COST CALCULATION TYPE 2

Three other studies have attempted more inclusive cost comparisons of congregate housing and nursing care by including the costs of housing subsidies, health care, and social services. In Maine, a 1984 report found that total costs for nursing care per month were \$1,362 per person, while the total costs of congregate housing were \$775—a savings of 43% (Heumann, et.al., 1985, p. 75). Connecticut found that its subsidies to congregate housing came to \$11.10 per day per person versus \$22.58 for the state's share of Medicaid reimbursement to all nursing homes and \$39.27 for new long-term care facilities—a savings of 51-72% (Congregate Housing Study Committee, 1985, pp. 69-70). Finally, Elaine Anderson of the St. Paul Housing Authority testified in 1985 before this Subcommittee that, in their CHSP program, the daily cost of a wide range of subsidies including housing was \$12.70 versus \$40.30 for nursing care—a savings of 68% or approximately \$10,000 per person per year (Subcommittee on Housing, 1985, p. 40).

Though these calculations are better than the first, they still are not adequate because they do not hold constant the level of disability of the service recipient. In other words, these studies are often comparing congregate services to all levels of nursing home care, including intensive skilled nursing care for extremely ill people.

COST CALCULATION TYPE 3

Two other studies have provided cost comparisons that attempt to hold constant the level of disability of residents at nursing homes and in congregate housing. A report on the Massachusetts congregate housing program documented the experiences of 31 congregate housing residents who had recently moved from nursing facilities on the assumption that their level of disability was much the same at both sites. The average cost of the nursing facilities had been \$1603 per month per person versus \$999 in congregate housing with services, a savings of 38% (McArdle, 1986, p. 9).

The most persuasive effort to carefully account for costs and control for levels of services required was done under the direction of Professor Leonard Heumann for the state of Illinois. His report concluded in 1985 that new facilities for congregate housing would cost \$10,908 per person per year while nursing home care would cost \$15,141-\$16,788 per person per year, a savings of 28-35%. He concludes that:

... the savings per person per year with congregate housing would range from \$4,233-\$5,880 if new congregate housing and long-term care facilities were built and began operation in 1985. For a facility of 148 residents or apartments the savings of building and maintaining comparable elderly in congregate housing as opposed to a long-term care facility ranges from \$630,000-\$880,000 per facility per year.

As dramatic as these savings are, they represent a conservative estimate of savings, based on sampling assumptions, and numerous quality of life factors that differ between the two facility types which cannot be expressed in dollar savings to the resident (Heumann, et. al., 1985, pp. 56-59).

COST CALCULATION BY THE HUD RESEARCHERS

Though cost/benefit comparisons were not a part of the original mandate of the HUD-Sponsored evaluation, the researchers were asked to document the costs of the services offered under the CHSP. This they did through data from building administrators and from service utilization diaries kept by participants. From these data, they calculated the cost of CHSP services to be approximately \$204 per month, a figure that is "neither noticeably more nor significantly less expensive than other similar social service programs" (Final Executive Summary, Sherwood, et.al., 1985, p. 9).

Using this data, the HUD researchers take an approach that differs in two respects from those studies reported above in making cost comparisons between nursing homes and congregate services: (1) they focus on the program level rather than the individual level and (2) they include longer time calculations for CHSP participants than for nursing home residents.

The HUD researchers do not dispute the findings from the studies cited above that demonstrate savings for congregate services for a typical individual over a specified period of time. They believe, however, that the targeting of congregate services will never be perfect and that, therefore, a certain percentage of people will be served who would not otherwise be institutionalized. Likewise,

services will not be needed for the same amount of time in nursing homes as in congregate facilities. In order to make policy decisions on a programmatic level about the relative costs of these two service approaches, we must account for these differences in the ways services are delivered. Even if congregate services can save money for an individual who would otherwise need institutional care, it remains an open question whether the CHSP can save money as a program.

In order to compare the costs of the CHSP at the program level to what would have happened in its absence, the HUD researchers had to rely on partial data, data from other studies, and some assumptions.¹ According to the final report, the costs of the CHSP were calculated for a hypothetical typical building housing 100 residents during the 14 month period of the study in the following manner:

Cost per month per person	\$204
Months.....	X 14
Percent participation (maximum recommended level)	X 20

Total cost for a 100-person facility for 14 months	57,120
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This was contrasted with the following calculation of nursing home expenses:

Cost per day per person	\$36
Days average for those CHSP participants who were institutionalized	X 278
Estimated institutionalization rate (based on a Massachusetts community sample).....	X 1.9

Total cost for those who would need nursing home care from a 100-resident facility over a 14 month period	\$19,016
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Based on these calculations the HUD report contains the conclusion that "CHSP, as a program, proved to be more expensive than institutional care" (Sherwood, et.al., 1985, p. VII-4).²

Several words of caution are warranted before we discuss the problems with this analysis of the relative costs of the CHSP and nursing home care. *In the first place, the researchers at the Hebrew Rehabilitation Center were specifically told not to do a cost effectiveness analysis. They did not, therefore, collect the data needed to make such analysis.* As Dr. Morris of the Hebrew Rehabilitation Center acknowledged:

One of the things that happened in the Congregate Housing Services Program evaluation was that moneys were never provided to do a cost-benefit, cost-effectiveness analysis. Subsequently, the data necessary, particularly when we looked at the more positive findings over the two-year period, were never gathered to answer that question. So the best we could do was rough approximations with standard numbers, but not based

¹ This is one of the points where significant changes to the final report and Executive Summary were made by HUD. These changes and their consequences are discussed at length in Chapter VII below.

² This conclusion was definitely the work of the HUD revisers and not the researchers at the Hebrew Rehabilitation Center. See the discussion in Chapter VII.

on actual utilization within the congregate housing service demonstration, per se, where we looked at the actual nursing home days, the actual hospital days, the actual Medicare cost broken out. We just didn't have the information. (Subcommittee on Housing, 1987).

More seriously, there is clear evidence that this cost comparison was significantly altered by officials at HUD after the researchers had submitted their final report (see Chapter VII below for a detailed description of the changes made). The analysis presented and criticized here is the altered version as it appears in the final report released by HUD, not the version submitted to HUD by the researchers at the Hebrew Rehabilitation Center.

Finally, the rough cost comparison done by researchers at the Hebrew Rehabilitation Center was presented in the context of an extended discussion of the effects of having relatively few residents at high risk of institutionalization (again, see Chapter VII below). *The point they were trying to make was not that the CHSP was more expensive than institutional care as the conclusion quoted above implies (a conclusion that does not appear in the original version), but that the potential for saving money would be greatly enhanced by increasing the percentages of vulnerable residents at CHSP service-enriched sites.*

With those major caveats in mind, the following problems with the above cost comparison must be noted:

- The 20% participation rate in the CHSP is the maximum recommended by HUD regulations rather than the actual participation rate.
- The 14 month duration measures the evaluation period not average participation by beneficiaries. Since actual program time averaged only 8 to 10 months, average participation time by individuals (not measured in this study) is certain to have been substantially shorter.
- The 1.9% institutionalization estimate is based on a different study of a Massachusetts community sample rather than data from the CHSP evaluation. A comparable figure from the CHSP study is not given.
- the 1.9% figure describes a 12 month rather than a 14 month period, thereby underestimating the costs of institutionalization by 14%.
- The estimated rate of institutionalization is likely to go up over time as people age in the program, leading to greater possible savings over time.
- The source for the \$36 figure for institutional care is unclear. No data on the cost of care for those requiring institutionalization were collected by the HUD researchers.
- The original report used a cost estimate of \$50 per day for nursing home care. This estimate was changed by officials at HUD to \$36. No reason was given for this change, nor was any source listed for the data. The effect of the change is to reduce the cost estimate of nursing home care by 28%.
- The level of care (skilled nursing, intermediate care, etc.) the \$36 figure represents and the costs included are unclear.

- The \$36 estimate is significantly lower than other data from the same time period. The 1985 Nursing Home Survey found average daily costs for private paid care to be \$48.09 for intermediate care and \$61.01 for skilled nursing care. The average cost for Medicare paid care was \$62.02, while Medicaid paid costs averaged \$39.57 for intermediate care and \$49.93 for skilled nursing care (National Center for Health Statistics, 1987, p. 7).
- As Professor Heumann notes (Heumann, et al., 1985), all estimates based on the costs to existing facilities are largely irrelevant for the purpose of planning policy. Policy planners must look to future escalating demand to provide either increasing numbers of nursing facilities or alternative services. These planners must, therefore, weigh the capital costs of constructing new nursing homes against the costs of providing community-based services such as the CHSP. The costs of building new nursing homes will be significantly higher than the costs reflected in current average cost estimates for nursing care.
- The 278 day figure cited as average duration of institutionalization for CHSP participants has proven to be erroneous. Subsequent analysis by the HUD researchers done at the request of this Subcommittee indicates that the average institutional stay for the few CHSP participants who had nursing home stays was actually 208 days.
- Since the 278 (actually 208) day institutional duration represents the experience of CHSP participants, it is an inappropriate statistic because the cost calculation in which the figure is used is for the costs of non-participation. Because the duration of institutional stays for CHSP participants is likely to be shorter, the use of this statistic may also underestimate the cost of average institutional care for non-participants. Unfortunately, a comparable figure for non-participants is unavailable.
- The 208 day average duration of institutionalization is also an inappropriate statistic because it is a truncated figure. Included in the average are people who began institutional care near the end of the 14 month period. As a consequence, this figure does not represent the average duration of institutional care during a normal 14 month period for those needed such care.
- The experiences of the first 14 months of start up time for a program like the CHSP provide a poor basis from which to assess the potential program effects during a normal 14 month period. As noted above, many of the CHSP participants who were institutionalized actually received very few services because they entered the institution shortly after the program began. To judge program effects or potential costs and savings on the basis of their experiences would be inappropriate.
- As noted above, new admissions from nursing homes were 6 times more likely at CHSP sites than at comparable sites without such services. *Despite these highly significant differences, no data is included on the substantial savings accrued through deinstitutionalization due to the CHSP.*
- No standardized data were included on housing expenses or extra services, such as physician's fees, for CHSP participants.

In short, while most of the HUD study is characterized by the careful use of data, the cost effectiveness comparison is marred by errors of data and calculation, serious omissions, and problematic assumptions. There is strong evidence, moreover, that both the conclusions and the data upon which they are based have been altered by officials at HUD in order to portray a more negative picture of the relative costs of the program. In fairness to the researchers from the Hebrew Rehabilitation Center many of the problems noted above are due to changes made in their analysis over which they had no control. They are careful to acknowledge the limitations of this analysis, which is based on incomplete data and problematic assumptions.

COSTS AND TARGETING

Though these data cannot be used to make judgments about the cost effectiveness of the CHSP, the analysis done by the HUD researchers has the useful effect of drawing attention to crucial factors that must be considered in making such judgments—namely, the costs, duration, and, especially, the targeting of services. If saving money is the primary goal, the CHSP will have to be narrowly targeted to those who are at greatest risk of institutionalization. Few dispute that a tightly targeted program providing in-home services would effectively reduce the enormous costs of unnecessary institutionalization. Alternatively, no one doubts that a badly targeted program providing services indiscriminately would add substantial costs. In large part, therefore, the cost argument is over the issue of targeting.

Regarding targeting, the HUD report found that the program served a high percentage of those identified as vulnerable (86.5%). A fairly high percentage of those determined to be non-vulnerable at Baseline (24.2%) also received assistance, though data from a "somewhat limited sample" indicates that over 60% of "non-vulnerable" service recipients had become vulnerable by Wave I. An early progress report called this targeting "particularly impressive given the absence of full reimbursement to implement and fully carry out a case management system and in light of the dependence upon a volunteer PAC (Professional Assessment Committee) to help in case management functions" (Sherwood, et.al., 1984, pp. III 7-8).

The HUD researchers suggest two ways one could target the program more effectively, both of which have already been implemented, but neither of which is reflected in the cost analysis above. The first approach would more carefully restrict the program to those needing it most. In June 1983, HUD followed this course by narrowing the targeting in two ways: (1) the definition of vulnerability was narrowed from one to two or more problems with Personal Activities of Daily Living (PADL) or Instrumental Activities of Daily Living (IADL), and (2) grantees were required to certify that those receiving assistance had inadequate informal supports (Sherwood, et.al., 1985, p. VIII-1). On March 30, 1987, targeting was tightened still further with a HUD directive that future participants have problems with three categories of daily living. These changes in

housing options.

The ARC believes that the proposal to restructure the Department of Housing and Urban Development by instituting the new Office of Assistant Secretary for Supportive Housing is a sound idea. While the ARC supports this effort it also recognizes that this office must have both the skill and power not only to shape policy, but also to enforce this policy at all levels (federal and regional) throughout the Department.

The ARC also believes in, and strongly approves of, the inclusion of the concept of supportive housing - defined in the proposal as "housing that combines an appropriately designed facility with a package of supportive services carefully tailored to the special needs of the tenants." For individuals with mental retardation, housing needs go beyond brick and mortar to the need for appropriate support services. These appropriate services are essential to ensure that they can truly benefit from this community-based housing. Without these services, any community-based placement would be doomed to failure. The ARC wants to emphasize that the need for support services must be determined on a case-by-case basis. We are pleased to see that this stipulation has been included in the section of the proposal related to rental credits. We are concerned with the generality of the definitions of both "supportive housing" and "supportive services" and suggest the adoption of definitions that are more specific to the broad service needs of all individuals with disabilities.

We want to emphasize the importance of, and crucial need for,

the various components of this Supportive Housing proposal fitting together as an efficient, cohesive whole:

- funding for housing production under Section 202 and the newly proposed Housing for the Handicapped Loan Fund,
- funding for support services, and
- funding for rental credits.

There must also be the assurance that no matter what funding formula is utilized that the monies are there to do an effective job of developing housing. Also, the paperwork requirements associated with these funding mechanisms must be simplified in order to encourage individuals and organizations to develop innovative housing, not to, conversely, discourage them from development.

The administration of the Handicapped Loan Fund suggested by this proposal is in a format quite different from what is presently in effect. If this proposal is enacted into law, and this block grant type approach is utilized, the power of the states will be increased as they become the funding funnel for the development and service monies involved. If this does occur, the ARC wants to stress that it is necessary to include provisions that assure that this law is flexible enough so that states with differing service agency structures (i.e. an umbrella agency that deals with all social services v. discrete disability-oriented state agencies) can apply for and distribute the funds equitably. Additionally, in the states where more than one system serves individuals with disabilities, it is essential that all systems be viably involved, that there is not the necessity for

competition among systems, and that the one determining goal is that individuals get the housing and services that they need no matter what their disability. If this is to be carried out efficiently, it is necessary that roles and responsibilities within HUD be extremely well defined and monitored - not only at the federal level but also in the regional offices that deal directly with housing sponsors.

A final position that the ARC that must take is that it is critical for any new housing legislation that is developed to be consistent with both the intent and spirit of equality evidenced with the passage of the Fair Housing Amendments of 1988.

We are excited about this interest in developing a new national housing policy and we are very pleased that the crucial issue of appropriate community-based housing for individuals with disabilities is addressed in this proposal. Not only is there a present dire need for community based housing but there will be a on-going, continuum of needs in the future as individuals with mental retardation leave home to pursue an independent life, and others continue to leave institutional settings and return to their home communities. We are eager to work with you on the development of this proposed legislation; and to share with you our experiences in developing housing for persons with mental retardation. Please call on us as needed.

policy occurred too late to be included in the results of this study, but the researchers note that:

... anecdotal information from grantees using these stricter requirements appears to show a higher incidence of serving those at very high-risk and a concurrent drop-off in the numbers of those served among the general resident population (Sherwood, et.al., 1985, p. VIII-2).

A second way to target the CHSP more effectively would be to open admissions policies at congregate housing sites to deinstitutionalize those already in nursing homes. This might require a policy change among some administrators since congregate housing has generally been targeted to the well elderly. As noted above, deinstitutionalization is already occurring at a substantial rate in CHSP facilities because doctors are more willing to release those needing some services and administrators are far more willing to accept former nursing home residents.

Since the HUD researchers followed the experiences of a group that was not institutionalized at the beginning of the study, the significant savings from deinstitutionalization are not included in the cost analysis. Using assumptions from the cost analysis above, the number of those who would otherwise be institutionalized would only have to increase by 3.5 per 100 residents to reach the break even point in costs. Modest efforts at deinstitutionalization would quickly reach that goal. With estimates cited above of unnecessary institutionalization ranging from 11% to 60%, the potential savings from deinstitutionalization could be quite large.

In short, the CHSP is clearly able to provide needed services at a cost far less than institutional care. By preventing unnecessary institutionalization, promoting deinstitutionalization, and preventing and shortening acute hospital stays, the CHSP undoubtedly saves the taxpayers considerable money. Extravagant claims of cost savings, however, such as those by several state programs reported at the outset of this chapter, should be viewed skeptically. Such reports often fail to account for certain costs and/or fail to hold the level of disability constant. Moreover, even the most thorough studies invariably report data on an individual basis and thus fail to note the problems with imperfect targeting on a program basis. Perhaps most importantly, many frail or disabled people who desperately need services will, nonetheless, go to extraordinary lengths to avoid institutionalization. Providing CHSP services may appear on the account ledger as a net cost over the status quo even though it is a very cost effective means of providing much needed services.

TAILORING AND COSTS

Cost effectiveness can also be affected by the tailoring of services to meet individual needs. The HUD report argues there may have been a gap between the goal of independent living and the emphases of the program as reflected in time and money spent on various services.

In large part, this problem is due to HUD's interpretation of the original Congressional mandate to require 2 meals a day, 7 days a

week. As noted above, meal provision represented 54% of the cost and 67% of all formal care provided by CHSP. The researchers contrast these numbers with other community service programs evaluated by the Hebrew Rehabilitation Center where under 10% of the hours of formal care were spent on meal preparation. They conclude that "This emphasis [on meals] may have been misplaced since there is no reason to believe that a two-meal a day program is a key to reducing institutionalization" (Sherwood, et.al., 1985, pp. VIII 8-9). Since meal provision is also the area where services are least well targeted, the HUD researchers call for less emphasis on meals and more emphasis on providing services most closely linked to promoting independent living. Addressing this problem, a directive issued by HUD on March 30, 1987 requires the provision of only one meal per day for new participants. Additional meals may be provided as required.

WHO PAYS AND WHO SAVES?

A final cost issue concerns who pays and who saves among various government programs for the aged. Responsibility for these programs is divided two ways: (1) among federal, state, and local levels of government and (2) among federal agencies. Providing CHSP services as opposed to nursing home care or other services inevitably involves a different mix of involvement by various agencies. Problems can result when the costs are borne by one agency or level of government, but the savings accrue to another agency. Even if significant savings accrue overall, opposition may result from transferring costs from one level of government to another or from one agency to another.

This division of responsibility and unequal sharing of costs and benefits can have major effects on policy decisions made at all levels of government, decisions that can profoundly effect the experiences of the elderly who are supposedly served by the system. For example, the cost of sheltered housing was born in Illinois by state and local governments while the costs of Medicaid were funded by a state/federal split available through Medicaid for nursing home care. Because state and local governments receive no reimbursement for congregate services, Heumann reports that "more [sheltered housing] residents are prematurely transferred to intermediate care in order for the facility to receive a realistic reimbursement rate" (Heumann, et.al., 1985, p. 62).

A similar phenomenon can be observed among federal agencies. Administrators and legislators have complained that the costs of the CHSP comes from the budget of HUD while the savings accrue to the Department of Health and Human Services (HHS) in the form of lower Medicaid costs. Much more data is needed to indicate how the CHSP would shift program responsibility and funding among levels of government and among federal agencies. The current uncertain division of responsibility in an atmosphere of fiscal austerity can cause agencies to hesitate in providing new services even if overall savings are likely to accrue.

Senator HEINZ. By the way, Mr. Chairman, I understand that one of my constituents is on this panel.

Let me ask you, Ms. Knisley, am I correct that you think that it would be desirable that the bulk of Federal funds should be funneled through State offices, which I assume includes yours?

FEDERAL FUNDS DISTRIBUTED THROUGH STATE OFFICES

Ms. KNISLEY. Yes. Senator Cranston and Senator Heinz, we believe that both the funding but I think more importantly the level of cooperation and coordination should involve, in our case, the State Mental Health Authority with the dollars coming through. In Pennsylvania, as you may know, 94 percent of the service dollars to persons with mental illnesses actually is provided from State funds, and given the fact that the concept papers have correctly and appropriately linked the supports and the housing together, that we have found that when those dollars are married in such a way or at least put together in such a way for the kind of coordination and direction that is necessary for persons in supportive housing, that that's critically important. And given the fact that my office is administering the support services—and that's been a major problem in the past where we have the money going directly—

Senator HEINZ. You're quite right. One of the problems we have here is that HHS and HUD don't like to cooperate on things like congregate housing, services programs, because it's always somebody else who's getting the credit or the budget penalty, and it doesn't show up as part of their service delivery counting system.

But let me ask the other people on the panel, do you agree that, as indicated by Ms. Knisley, that the Federal Government should give the State government the lead in disbursing funds? Mr. Sherlock?

Mr. SHERLOCK. Thank you, Senator Heinz, yes, I do with some qualifications. I think with strong leadership in the office of the Assistant Secretary for Supportive Housing, advocacy, and flexible enabling legislation which requires States to coordinate their services no matter what their service delivery system, it will be possible for States to be able to address their own individual problems. However, it's the strength and the flexibility of that legislation that will nudge the State agencies, which may in fact end up with the same problems, of lack of coordination that occur at the Federal level. If it is spelled out in the legislation, that States have to provide comprehensive, unified plans—

Senator HEINZ. You're saying yes, but with guidelines?

Mr. SHERLOCK. Absolutely.

Senator HEINZ. Do both of you gentlemen generally agree?

Mr. SMITH. I agree because the Older Americans Act works that way and it works well. So I agree also.

Senator HEINZ. Mr. Slemmer, do you agree as well?

Mr. SLEMMER. I believe that the low income housing problem in this country really needs to be addressed by the Federal Government. Certainly there's a role for the States in administration, but I think we will be short-sighted if we think that we can just give some directions to the States and expect them to follow through. I

think it's a national problem and one that I think that this proposed legislation addresses.

Senator HEINZ. Just to pin the point down, though, do you disagree that the States should be the people who disburse the money rather than the Federal Government, even if a lot of the money or most of the money comes from Washington, DC?

Mr. SLEMMER. I'm not sure I necessarily disagree, but I think that I have to think strongly through that. We are very active in the section 202 program which as you know, is now administered almost totally by the Federal Government. At present they don't do a very good job of administering the program, in part, because it's spread out among 50 area offices around the country. If we then broke that down spreading it out among 50 other State agencies, I can see some coordination problems in the program.

I'm not saying it's not workable. It's certainly something we need to be practical about also.

Senator HEINZ. One last question, if I may, Mr. Chairman. That is, what should the nature of the guidelines be? If we're going to do it through the States, what are the most important or critical elements—either to Mr. Sherlock or Mr. Smith—of those guidelines? How should they be written? What should they stress? What are the key criteria by which State programs should be measured?

CRITICAL GUIDELINES

Mr. SHERLOCK. Well, people don't like to hear it, but I think there should be more than strings attached. It should represent ropes to access to the very clear articulation of the legislative intent. People don't like to hear "Washington guidance," but since it is such a national problem and since States approach it in different ways, I think it's incumbent upon the Congress to indicate what is intended and the States have to abide by those guidelines in order to access these moneys.

The government and administering agencies should be the ones to experience the travail, not the consumers. As it is now, the bureaucracies deal with each other but the consumers end up with the problems. I think we ought to be able to cast it in such a way that the program will be workable given the strong guidance of the Federal Government.

Senator HEINZ. Very well. My time has expired. Thank you very much.

Senator CRANSTON. Chic, do you have any statement?

Senator HECHT. No, thank you.

Senator CRANSTON. Thank you very much for your testimony.

I have just a couple questions I'd like to ask you. In your testimony and that of others, a recurrent theme is that the Federal Government must maintain a leading role in housing policy and some of you have already commented on this, but I'd like to just put this to whomever chooses to answer.

What is it about housing policy that makes it a Federal responsibility and not a responsibility for State or local government or for the private sector? Do any one of you want to further respond to that?

Ms. KNISLEY. I will, Senator Cranston. I think that it's been well articulated in the concept papers and I think also by the individuals here today that many of us believe that housing is so fundamental—you can't do much else without a place to live—a job—it's just so fundamental to our life that the right to decent, safe, affordable housing is in this nation something that when we've lost the emphasis on decent, stable, affordable housing that we've had a serious problem that has transcended what we can and have done in State and local government. Because of the basic element of housing that it requires national attention and leadership.

But as we also know and we've heard here today, it requires the cooperation and attention from all levels of government and from those out there who have to get the job done. But it's just so fundamental to life itself, a decent place to live, I believe that without the leadership and attention at the national level that we have seen firsthand on the streets of our nation the problems that result.

Senator CRANSTON. Any other comments on that point?

Mr. SMITH. I would like to add one thing, Mr. Chairman.

I sort of remember after World War II when I came home that I had married and had to live in a project and it was very fine. I made a lot of good friends I still have today. But the GI bill with its low interest was the only way that I got a home then and got our start. And I think that the Federal Government is the only one who has the vested power of spending large sums of our tax moneys and low interest rates on a new GI bill.

I'm very concerned that some of my children and especially for my grandchildren that they will not be able to afford a house, and I think Federal direction is the only way that this can be accomplished.

Senator CRANSTON. Mr. Slemmer, I take it you're in agreement that there's a need for a strong Federal role.

Mr. SLEMMER. I would say also a lot of the tools that are available to initiate low income housing are available only at the Federal level like the Internal Revenue Service tax bills and laws and the fact that a lot of the issues affecting housing are national in scope. The interest rate, for example, the rate of inflation, construction costs. I think the broader perspective from the Federal Government is one of the main reasons for the Federal role in this area.

Senator CRANSTON. Thank you.

Some observers have opposed the establishment of a new Assistant Secretary for Supportive Housing with line authority for the elderly, handicapped, homeless and other special needs programs.

Generally, testimony before us, including yours, supports the creation of that new position.

What specific benefits can a new Assistant Secretary provide to the elderly and the handicapped? In what ways can this new official improve the administration of various elderly and handicapped housing programs?

Mr. SMITH. May I respond to that?

Senator CRANSTON. Sure.

Mr. SMITH. The way I feel about that is that this is going to be a major change in the structure and the bureaucracy of HUD. We've

got to have a very strong advocate who understands that providing services is going to extend the length of time that a person can stay out of an institution.

Now if they've got that in their mind and they've got that in their heart, then they can be the advocate at HUD to effect this change in their whole thinking. You know as well as I do, any time you change something in a bureaucracy it's a very, very difficult thing to do and in order for it to be effective we've got to have somebody at the top level with the authority and the knowledge and the desire to make that program work within HUD because it's so doggoned important to keep people out of institutions. As the senator that left said, it maintains their independence, their dignity and gives them a purpose in life. Thank you.

Senator CRANSTON. Thank you very much. Mr. Sherlock.

Mr. SHERLOCK. I'd like to add to what Mr. Smith said. I think at the outset the inclusion of an Assistant Secretary at that level makes a very, very important statement. It says that this national policy includes special concern for those people with special needs. It states it right up front and then it says in order to implement that we're going to have a high level advocate and highly skilled person to make sure that subsequent policies, rules and what not follow through on that. And I think it's very, very critical to the intent of the entire piece of legislation that it's the ones that need the assistance that in fact get the focus. The skill of the proposed assistant secretary may be the key.

We don't want to create a program that eventuates the further isolation of people who need help and further exacerbates the problems of elderly people who have to leave their homes before they need to; people with disabilities having to leave their homes before they need to; or unable to access community living without supportive housing. Maintaining people's levels of independence through this important statement will be a major contribution to the housing policy of the country.

Senator CRANSTON. Thank you very much. Yes, Mr. Slemmer.

Mr. SLEMMER. I think we could sum it up from AAHA's perspective short and sweet. We've said it to the committee staff many times. Unless you do something about the administration of the program, the legislation is kind of fruitless. We see right now we have legislation for funding elderly housing on the books; yet, we have 3 years of product and funding that haven't been built. We need to do something about the current administration of the program. If nothing else, it makes a convincing statement that we're going to have to do something different with the current administration of this program to make it work.

Ms. KNISLEY. Senator Cranston, I would add to that that we could tell horror stories all day of the regulatory process and the administration that without someone whose interest is in the area of supportive housing and who takes the time to understand the problems that have been created by legislation and by the regulatory process—unless we have someone who's walking through that, we could tell those horror stories.

I would also like to add that from our perspective in delivering the services, when the dollars come down, we deal with several

Federal agencies and we have seen time and time again, particularly recently, where there is no relationship between those agencies.

In our case, the National Institute of Mental Health is out right now with supportive housing demonstrations and they should be. They are our arm in the Federal Government that is looking to new service delivery and research. But there is no direct relationship between their efforts and the efforts of HUD and there must be some direct reference we believe in the legislation and for the role of this particular secretary in this area in order to bridge those two gaps because we're talking to two almost foreign countries sometimes with the programs that we have to deliver.

Thank you.

Senator CRANSTON. Thank you very much.

Al, do you have any questions?

Senator D'AMATO. Well, only one, Mr. Chairman.

I was interested in the comment as it related to streamlining procedures and that legislation without there being the improvement in the delivery system becomes ineffective.

You say there are 30,000 202's in the HUD pipeline? That's an estimate?

Mr. SLEMMER. That's an estimate that was originally stated by HUD.

Senator D'AMATO. Now what do you attribute as being the main cause for that not getting out?

Mr. SLEMMER. I would say that there are some problems primarily with the fair market rent system. We think that maybe 30 percent of the country, you cannot build elderly housing due to FMR's. This is because there are not enough mortgage dollars from the project to pay for the construction costs. I think your concept papers address a remedy to this problem very well.

I think the HUD cost containment requirements have created a further delay. Further, I think that there has been in the past few years a significant reduction in the labor force in the Department of Housing and Urban Development. HUD has lost a lot of their good people which has caused some further delay.

Senator D'AMATO. When you say cost containment and some of the problems attendant, I think someone made mention of the fact of the development of a two-story project with no elevators—I don't know if that was you or Mr. Smith.

Give me some examples where you think we could do better in this area of cost containment.

COST CONTAINMENT

Mr. SLEMMER. Well, I think primarily the cost containment really needs to be looked at because I think they are short-sighted. I think we're required to build structures that are not the kind of structures that are going to be standing in 40 years, or else they are going to require a lot of maintenance to keep them up for 40 years. That's No. 1. I think the physical plant problem needs to be examined.

We've seen HUD requirements where we've been required to put on aluminum siding instead of masonry construction. Yet, you

could figure a payback just in terms of insurance rates within 5 or 7 years.

There are other scenarios that relate to cost containment. I think HUD has been given the directives to keep the costs down in this program. They have given the directions to do that within the fair market rent system. And to do that, they make cuts.

What's happened unfortunately, is there's not the realization that we have older people living in these facilities. Although they're designated as independent living facilities, as these residents age and become very frail, they still can certainly survive in an independent setting. Yet, they may not be able to make it up the stairs. We find, for example, some HUD offices actually giving priority in their cost containment to applications for a two-story walkup. We find that short-sighted.

We've had to turn around after building a two-story walkup and put in a chair lift that would take people up the stairs.

So there are a whole series of these HUD actions items that I think we really need to look at because I don't think we're building the kind of product that we want to build if we're going to be getting involved in providing for a more frail population.

Senator D'AMATO. Let me ask you one other thing which you mentioned which I've heard a number of developers and people complain about.

Give me an example of what you consider to be faulty areas as it relates to fair market rents. Give me an illustration if you would.

Mr. SLEMMER. An example of a fair market rent problem?

Senator D'AMATO. Yes, the kind of fair market rent problem that you believe exacerbates the problem and prevents these projects from being developed. That is the end result, isn't it?

FAIR MARKET RENT PROBLEM

Mr. SLEMMER. Right. We have numerous cases that AAHA has developed that we'd be glad to share with the committee. One, for example, that comes to mind that is in Texas, for example, where the fair market rents are very low. We have a facility that was funded in September 1986, in Waco, TX, a 60-unit facility. The fair market rents are so low that the project can't support the construction costs and so that project just sits there. Under present cost factors, it will never get built. When you do your processing it shows a \$300,000 or \$400,000 shortfall in the cost of construction versus the total development cost.

Senator D'AMATO. Is there an appeal process?

Mr. SLEMMER. Yes. We have appealed and appealed and HUD's reaction is one I think, perhaps is legitimate at this time, until we change the regulations. That is, we're mandated to work within this fair market rent structure and if the fair market rents don't support it, you should not be building housing in that area.

Senator D'AMATO. Do you have some suggestions as it relates to improving that regulation or those regulations in relationship to fair market rents?

Mr. SLEMMER. Absolutely. I think we need to set up a system where the development costs are supported by the HUD mortgage and eliminate the fair market rent system.

Senator D'AMATO. Just eliminate it?

Mr. SLEMMER. I would suggest that that would be the way to develop the housing. It's either that or decide not to allocate funds in areas where the fair market rent won't support the housing.

Senator D'AMATO. I'm looking for a way in which maybe to split the baby and maybe you can't split the baby, but that to those who preach fiscal prudence there, there is a test that is met. Yet, by the same token, there is the kind of flexibility that deals with the Texas problem or the Albany, NY problem where the same situation exists. Where they will take a huge catchment area and will apply rents in certain areas that are not appropriate in that area and make the construction impossible.

Mr. SLEMMER. I don't think the fair market rent system is necessary. There are numerous restrictions on what you can develop in the HUD programs because of cost containment and because of your bidding or negotiation process you don't need to add another layer on top of that. Right now, we are building barebones construction.

Senator D'AMATO. Are you saying that you believe that legitimate bona fide cost containment, which no one here is opposed to, can be achieved, public protected, and be public investment, without the application of fair market rents?

Mr. SLEMMER. I believe so, yes.

Senator D'AMATO. Would I be presumptuous in asking you if you haven't already to submit a paper to us or to our staff? I would certainly welcome that.

Mr. SLEMMER. We'd be delighted.

Ms. KNISLEY. Senator D'Amato, I might add that I was involved in four HUD projects in the State in the last several years where we could not proceed with construction because of the fair market rent value and the State stepped in in each of those because of the fact that our nonprofits had already gotten involved and already spent a lot of time and effort and came through with service dollars to meet that particular shortfall.

In each of those situations, however, our dollars had also had particular restrictions on them and we had very great difficulty trying to marry them up in terms of what we could provide and what could be provided at the local level.

In every single 202 that was approved in our State during that period of time we had to step in as a State mental health authority in order for it to proceed and the nonprofit corporations were already 2 or 3 years into the process before we got to that point and we felt we had to follow through.

I would only add to Mr. Slemmer's comments that I think that there are a number of different things that can be done and, again, this I think is a good illustration of where we could be looking at State and local government participation if we eliminate the fair market rent or looked for some protection in terms of the cost containment as well.

Senator D'AMATO. Well, I would be very appreciative and I know the chairman would be if you would submit to us some of your suggestions as to how to improve that. Not just the elimination of fair market rent, but spelling out in detail how we would still keep cost containment because I think that's important.

I hear a growing crescendo here and we've almost put the 202's out of business as it relates to their actually being developed. There's no sense awarding 202's. The result will be then standing around waiting for 2, 3, 4 years and having to petition the Secretary for an extension of time and having these local groups, who are experienced and are bona fide, and who are really charitable in its truest sense, will run headlong into this obstacle. So we think that you've touched upon something that's very important. I thank you.

Thank you, Mr. Chairman.

Senator CRANSTON. Thank you, Al.

I thank you very much. That concludes our work with the first panel this morning. Thank you each very much.

We now go to our second panel consisting of Barry Zigas, president, National Low Income Housing Coalition; Charles Kamasaki, director of policy analysis, National Council of La Raza; Martha Brown Hicks, president, Skid Row Development Corp. of Los Angeles, CA; Maria Foscarinis, Washington counsel, National Coalition for the Homeless; Steven Banks, staff attorney, homeless family rights program of the Legal Aid Society, New York; and Terry Lewis, president, National Association of Housing Cooperatives, Alexandria, VA.

I welcome you this morning. Because there are so many witnesses on this panel and because we have another panel coming up with a number of witnesses, I do want to remind you to watch these lights. You have five minutes to give us your wisdom. We do have to try to end at the end of five minutes. Your full statement will go into the record as if read. We regret the necessity for that kind of procedure, but there are so many witnesses we want to hear from and so many wanted to be with us that we just had to compress things to that degree.

So we'll start with Barry Zigas and I thank you for your help in so many ways in this effort.

STATEMENT OF BARRY ZIGAS, PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION

Mr. ZIGAS. Thank you, Senator. So many views and so little time, that's a dilemma I can sympathize with.

Let me thank the subcommittee and the chairman and the ranking minority member for inviting us to testify here today. I'd like to submit my written statement for the record and add for the hearing record a copy of a written addendum that I have that outlines our organization's policies and principles.

I want to thank the members of this committee and especially the ranking minority member and the chairman for starting this process and being the mainsprings behind so much thinking and writing and meeting and doing over the last year to help formulate a new national housing policy and I want to emphasize how important we feel this whole process is and how much we are anxious to be a part of it.

I'd like in my statement to briefly review a couple of things, one of which is to review with you again the facts of housing need that

really compel your attention and the Government's attention to low income housing.

Low income people today are suffering from intolerable rent burdens, from deplorable physical conditions, from overcrowding, homelessness, and the threat of homelessness.

In the last decade, the housing conditions of the very poor, measured by almost any conceivable yardstick, have worsened. Rent burdens among single female householders have rocketed from an average of 38 percent in 1974 to 58 percent in 1986. Between 1970 and 1983, median rents increased at about twice the rate of median income, while the number of cost burdened renter households rose by almost 60 percent.

HOUSING IS A HUMAN RIGHT

I want to emphasize the National Low Income Housing Coalition's belief that the fundamental principle that should drive housing policy at the national level should be that housing is a human right. There are millions and millions of people today who, despite 50 years of government attempts to reach the goal of affordable housing for all, are still not served.

We believe that Federal housing expenditures should give highest priority to those with the most critical housing needs: People living in inadequate housing, people displaced or threatened with displacement from whatever cause, and people whose incomes are too low to bear the high cost of housing.

In this additional statement we go through a lengthier explanation of these priorities and I submit that for the record.

On the specifics of the proposal that we were asked to review today, I have to say that although we are very pleased that this work is going on and are hopeful for the future, we are disappointed that the staff concept papers in our mind really avoid this central issue that has to be grappled with by this committee, and that is the dedication of resources to this problem.

The structural issues discussed in this paper will only be useful if they are backed up by a major, major expansion in government resources for housing.

Let me try to put this in some context that doesn't sound like megabucks but puts it in its proper perspective. Today, the U.S. Government will be spending on poor people's housing needs one penny for every dollar of Federal outlays. There is a myth, I think, that we have allowed to overtake us in our discussions that says we have poured untold billions of dollars, endless resources, into low income housing and we have failed somehow and that this has been a waste of money.

The fact is that with the money we've spent we've provided decent, safe and affordable housing for 4 million households. The other side of the coin is that it's a scandal that in a country this large with an economy this big and a budget this big that we still can only find it in our hearts to spend one penny of every Federal dollar outlay on housing.

If this committee were today to pledge to double housing outlays—to double housing outlays, to add another \$12 billion in real spending to housing—it would amount to one cent per dollar of

total Federal outlay increase. We have the resources to achieve this goal.

Today, we spend 4 cents on low income housing for every dollar of military spending. It's a matter of priorities and one that I think the committee really has to grapple with.

When we were meeting in my executive committee about the paper, one of my colleagues said, "You know, if we only spend a few hundred million or a billion dollars on this problem, it really doesn't matter what the shape is; we will not have an impact." She then said, "If we spent \$50 billion, it almost might not matter what the shape of the housing assistance is, either it would really begin to have a major impact."

The level of resources here is really the critical issue.

My statement reviews other areas about which we are very concerned. Let me emphasize just one and that is targeting. The paper leaves open the discussion of targeting presumably for more debate and I join that debate happily today. The 1985 Annual Housing Survey data has been released and it shows the median renter income around the country is \$15,496 compared to a median per owners of \$27,800. Thirty-eight percent of all of the renters with incomes below this median pay more than half their income for rent.

I urge you to take these figures and make the new legislation clearly, explicitly and unequivocally targeted to meet the housing needs of these most in need in the low income housing area.

My time is up. I have other comments that we've written and in the interest of giving everybody else a chance to speak I'll stop now. Thank you for the opportunity. We look forward to working with you and the staff on this important task.

[The complete prepared statement of Mr. Zigas follows:]

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Hon. Edward W. Brooke, Honorary Chairperson

Barry Zigas, President

PREPARED STATEMENT OF BARRY ZIGAS
PRESIDENT,
National Low Income Housing Coalition

ON

STAFF CONCEPT PAPERS FOR A
NATIONAL AFFORDABLE HOUSING ACT

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
U.S. SENATE

SEPTEMBER 28, 1988

Mr. Chairman, distinguished members of the Subcommittee, my name is Barry Zigas. I am President of the National Low Income Housing Coalition, a national nonprofit advocacy organization whose members include low income tenants, nonprofit agencies, government agencies and other individuals and organizations dedicated to our fundamental principle: housing is a human right. I appreciate the opportunity to appear before you today to share our comments on the concept papers for a National Affordable Housing Act circulated by the Subcommittee in August.

First, let me congratulate the Chairman and the Ranking Minority Member for their initiative in this effort. Your support of the National Housing Task Force, the MIT Housing Studies project, and your determination to lead the Congress to a "post-Reagan housing policy" has been critical in sparking the last year's wide-ranging debate on the shape and purpose of national housing policy and programs. The Staff Concept Papers are another step in this process of recommitting the nation to a fundamental goal: decent and affordable housing opportunities for all Americans.

My testimony will cover three areas: a description of the housing needs which confront low income people, and the priorities which my organization believes must be maintained in order to meet them; an overall assessment of the Concept Papers's response to these needs; and some specific comments about particular parts of the Concept Papers.

LOW INCOME HOUSING NEEDS

Using 1986 dollars, the cost of the median-priced rental unit rose from about \$315 in 1975 to near \$365 in 1987. That's an increase of nearly 14 percent. Meanwhile, the number of housing units renting for less than \$300 per month--the amount a family can afford on a \$12,000 per year salary if they pay one-third of their income for rent--declined by over 1 million units between 1974 and 1983. The number of units renting for more than \$400 increased dramatically during the same time period. During this same period of time, the real income of young married couples declined by 14 percent. Single parent household income dropped by 34 percent.

These diverging lines--steadily rising rents and sinking incomes--mean more and more families are being crushed by the burden of paying for their housing. Young single-parent families have seen their rent burden surge from 35 percent of income in 1974 to 58 percent in 1987.

One out of every three American families, about 32 million households, earns less than \$15,000 per year. One out of every

two of those households pays more than 35 percent of its income for rent today. One out of every four, or 8 million families, pays more than 60 percent of its income for rent. Overall, more than 90 percent of all renters paying more than half their income for rent earn less than \$15,000 per year, according to the Harvard Joint Center for Housing Studies.

By contrast, two-thirds of the renter households with incomes of more than \$35,000 paid less than 15 percent of their income for rent.

In other words, the less income you earn, the more of it you can expect to pay for housing.

Although the high cost of housing remains the most fundamental problem facing low income people today, millions of Americans still cannot find decent housing at any price. This is especially true in rural areas where credit is not available, and where poor families often still live in homes without running water. The same is true in large cities and suburbs and towns for large families, the disabled, single adults and for many elderly.

Structurally unsound housing remains a problem throughout the country. In 1983, 4.5 million homeowners and 5 million renters occupied housing that did not meet minimum quality standards. The absolute number of low income families living in substandard housing increased by 20 percent from 1 million in 1973 to 1.2 million ten years later. Twenty-six percent of renters with incomes below \$5,000 occupied structurally unsound housing, according to a recent study by the Joint Center for Housing at Harvard University.

Housing affordability has also priced millions of housing units out of poor people's reach. In 1970, the nation boasted 14.9 million rental housing units that could be rented at 30 percent of a \$5,000 income. The number of renter households with \$5,000 per year or less at that time was 8.4 million. But ten years later, the number of affordable units had dropped to only 2 million, while the number of households declined only to 5.5 million.

While the supply of government subsidized housing has increased since such programs first began in 1937, the fact is that the federal Department of Housing and Urban Development (HUD) now provides subsidies to only 4 million households. So while the need for housing among very poor families grew from 1970 to 1983 by leaps and bounds, the federal government has provided in its entire 50-year history only about one-third the number of affordable housing units that have vanished from the inventory through rent increases, demolition and abandonment in only a short ten-year period.

Women in particular are victims of the housing crisis. They are more likely to be poor--almost half of all female householders with children were poor in 1987, compared to one-eighth of all families with children. Women are less likely to be homeowners--while 65 percent of all households and 77 percent of married households are homeowners, only 47 percent of female households own their own homes. Despite their lower incomes, female householders get shortchanged on housing subsidies. Taking into account both direct spending and tax expenditures for housing, most federal subsidies go to married couples or to male householders.

These facts are not new. They have been outlined by others, including the National Housing Task Force. They must be repeated, however, because we cannot lose sight of the basic needs which compel governmental action in low income housing: poor people are suffering from intolerable rent burdens, from deplorable physical conditions, from overcrowding, homelessness and the threat of homelessness. In the last decade, the housing conditions of the very poor, measured by almost any conceivable yardstick, have worsened:

- ▶ Rent burdens among single female householders have rocketed from an average of 38 percent in 1974 to 58 percent in 1986.
- ▶ Between 1970 and 1983 median rents increased at about twice the rate of the median income, while the number of renter households--mostly poor--that were cost-burdened by housing expense rose by almost 60 percent.
- ▶ In 1987, more than 3.2 million families with annual incomes of less than \$5,000 received no rental assistance. In fact, after 50 years of effort, only about 28 percent of all poverty level households participate in federal housing assistance programs, lower than the participation rates in Food Stamps, Medicaid or School lunches.

The National Low Income Housing Coalition believes that the fundamental principle of national housing policy should be that housing is a human right. Decent, safe and sanitary housing is one of life's necessities. The federal government must bear the responsibility for ensuring that the opportunity to obtain decent, affordable housing with a choice of location is available to all in our society.

We also believe that federal housing expenditures should give highest priority to those with the most critical housing needs: people living in inadequate housing; people displaced or

threatened by displacement, from whatever cause; and people whose incomes are too low to bear the high costs of decent housing.

We have submitted our statement of basic principles and policies to your Subcommittee before, in response to your request last autumn for recommendations to guide your work. I submit them again for the record in this hearing. Briefly, we believe that the federal government must make housing assistance an entitlement to all those who need it. We believe that a national housing policy must include a major commitment to providing and maintaining an adequate supply of decent, safe and affordable housing, and that the current housing crisis requires massive new efforts to produce or renovate at least 750,000 affordable housing units a year for the next 10 years. New supply oriented programs must emphasize resident control over the management and preservation of low income housing, and should require the involvement of community-based organizations, mutual housing associations, limited equity cooperatives, land trusts and other mechanisms which will ensure the social use of the housing and deter speculative abuse. Displacement of low income people is the most pressing housing problem confronting many millions of poor people, whether by private action or public intervention. The focus of federal housing efforts should be on programs which help residents develop and preserve their communities for themselves; too often federal programs have assisted such development for others at poor peoples's expense. Fair housing enforcement should be vigorous and unequivocal. The recent experiences of Yonkers, NY illustrate the barriers which still remain in many communities to the full integration of affordable housing for low income people. The federal government must maintain a vigorous enforcement effort to ensure that such obstacles are eliminated. This is particularly important given the evident trend to rely more heavily on state and local governments in developing and running programs. Federal tax laws should be reformed to target scarce resources to those with the greatest housing needs, and to limit assistance to clearly defined national objectives. Monetary and credit policies should be shaped to provide reasonable financing costs for housing and limit credit-related fluctuations which increase costs, prices and rents for all housing.

STAFF CONCEPT PAPERS

Making a Commitment to Meet the Need

The staff Concept Papers are a great disappointment to us because they fail to address the most critical of all questions confronting Congress in this area: providing adequate resources to meet the housing needs of low income people.

Because of budget cutbacks enacted by Congress, housing assistance today accounts for only one penny of every federal budget dollar spent. Total spending through HUD housing assistance programs on behalf of very low income people will total only \$12 billion in fiscal year 1989. This is about what households with incomes above \$75,000 will receive in tax subsidies for homeownership. The richest four percent of all tax payers are thus being subsidized with the same level of federal resources as a mere fraction of the poorest households.

No amount of tinkering with delivery mechanisms will substitute for a clear and unalloyed commitment to new federal resources to resolve the low income housing crisis. There are no "magic bullets" to help you avoid this fact. Without more money--lots more money--none of the new wrinkles proposed in the Concept Papers is going to make a real difference in the housing situation faced by poor people.

The National Housing Task Force proposed major new commitments of federal funds to move its agenda forward: at least \$3 billion for its proposed HOP program; immediate doubling of budget authority for Section 8 rental assistance programs; continuation of the public housing and Farmer's Home Administration programs; continuation and expansion of the Community Development Block Grant program. As I testified in April, the National Low Income Housing Coalition believes even these suggestions are inadequate. Yet the Concept Papers fail to even match these modest proposals.

This gap in the Concept Papers tarnishes their other recommendations. Every housing advocate in the country understands that the fundamental obstacle preventing the nation from moving forward to realize its goal of decent and affordable housing for all is a lack of money.

Rededication to adequate funding for low income housing programs does not first require rearranging the allocation mechanisms, or re-routing responsibilities along a new national flow chart, although these decisions are important. It requires first and foremost a political decision to make housing a priority in the budget; to reorder spending and tax priorities to free up the resources necessary; and to apply them directly and in the most cost-effective way to solve the problems confronted by real people: that decent safe and sanitary housing is too expensive for poor people, and that too little of it is available at any price where most poor people live.

The Concept Papers have avoided this responsibility. Even the funding recommendations of the National Housing Task Force, which were derided by many as too timid and hesitant, have been rejected in favor of a "structure only" approach in the papers.

Mr. Chairman, the challenge to you and your colleagues is clear. The success of your efforts to chart a new course depends on your resolution of this problem: the housing needs of America's low income people demand a major new commitment of federal funding.

I urge you to take on this challenge immediately. An immediate doubling of federal outlays for low income housing--an additional \$12 billion in spending per year--would still only require that 2 cents of every federal dollar in outlays be dedicated to housing for poor people. An increase of \$25 billion in real spending--enough to fund Section 8 rental assistance for every eligible household and to finance the production of hundreds of thousands of new and rehabilitated housing units every year--would only require 3 cents of every federal dollar in outlays.

These are modest amounts. These increases would provide a five-to-three parity between spending for high income homeowners--who this year will benefit from nearly \$50 billion in tax expenditures--and spending on behalf of low income renters.

These funds are available. The federal budget this year provides for spending four cents on low income housing for every dollar that is spent on the military procurement. Surely the greatest economy on earth can find a way to increase its spending on the most critical needs of its poorest citizens to at least 12 cents for every dollar spent on the military.

Mr. Chairman, one of the National Housing Task Force's principal recommendations was that Congress commit to making available sufficient resources so that every low income household would have the opportunity to enjoy decent, safe and affordable housing by the end of the century. I urge you to adopt this goal as your own.

Program Simplicity

We are also disappointed that the Concept Papers have taken a fairly simple recommendation from the National Housing Task Force--grants to subsidize housing programs carried out primarily at the state and local level--and converted it into a needlessly complex arrangement of debt (which is not debt) and interlinked obligations. The Concept Papers emphasize "investment" in low income housing and structure a program that is apparently designed to make it look less like government assistance than some kind of sophisticated investment banking scheme. This does a disservice to everyone involved in the process.

Even public housing, which once used a system similar to that proposed by the papers, now operates on a straightforward grant principle. Similarly, the papers perversely suggest that

the Section 202 program--which now operates on a debt basis--be itself converted to a financing mechanism that is obviously a grant combined with operating assistance.

Government spending on low income housing is an investment--it is an investment in children and families, an investment in the elderly and disabled, an investment in the quality of life in all of our nation's communities. As the National Low Income Housing Preservation Commission pointed out in its report, the mammoth investment which the government has already made in affordable rental housing could not be replaced today.

We urge the Committee to consider a simpler, more direct approach to the principles contained in the HOP program developed by the National Housing Task Force.

Targeting

The Concept Papers are also silent on the fundamental question of who would benefit from its centerpiece program, the Housing Opportunities Partnership. The National Low Income Housing Coalition believes strongly that housing assistance should be focused first on those most in need: the poorest, those living in inadequate housing, those paying more than 25 percent of their income for rent, the homeless, and those who are displaced or threatened with displacement because of public or private actions.

According to recently released data from the 1985 American Housing Survey, median renter income is \$15,496, substantially lower than median owner income of \$27,831. There are nearly 16 million renters with incomes below \$15,000; 7.8 million living below the poverty level. Fully 38 percent of all the renters with incomes below \$15,000 per year are paying 50 percent or more of their income for rent; the largest number of such renters is among those with incomes of \$5,000 or less.

The current requirement in the Section 8 program of 50 percent of median income is often far higher than \$15,000. In other areas, of course, half the local median is lower. The National Low Income Housing Coalition urges you to adopt targeting requirements which insure that absolute priority will be given in allocating low income housing assistance to those with incomes below \$15,000, or 50 percent of the area median, whichever is lower. This still targets assistance to households with incomes in excess of the poverty level, which is closer to \$12,000 per year. Keep in mind that there are 5 million renters with incomes below \$5,000 per year, and a total of 10.8 million renters with incomes below \$10,000. Altogether, HUD assistance programs only reach a total of 4.1 million households.

Homeownership versus Rental Assistance

The Concept Papers offer separate--but undefined--targeting criteria in the HOP for homeownership assistance and rental assistance. We oppose this distinction. If the premise of the HOP is to allow local and state governments to tailor their programs to meet local needs most effectively, then we believe that federal government should insist on very tight targeting throughout the program. Separate targeting requirements are discriminatory and could easily lead to bias among the program administrators in allocating assistance. If anything, the federal statute should put a limit on the total amount of assistance that can be used to promote homeownership, since history indicates that administrators will favor that part of any program which allows them to deal with the problems facing those highest in the income ranges allowed.

Homeownership need not be limited to those with higher incomes only. The 1985 American Housing Survey reveals that 25 percent of the 56 million homeowners have incomes below \$15,000 per year; 10 percent of the owners earn less than \$10,000, and 5 percent less than \$5,000. Experience in the Farmers Home Administration programs also shows that low and very low income households can become responsible homeowners with the right subsidies.

Long Term Affordability

The Concept Papers assert a determination to insure as much as possible that housing financed under its new programs remain affordable to low income people. We applaud this emphasis. It is one of the most critical principles your new policies must include.

However, the mechanism suggested in the HOP program is inadequate. Simply requiring that the subsidy be repaid if a property is converted invites the same underlying speculative considerations as current programs. Appreciation of the underlying value of subsidized housing is likely to be greatest in those areas where conversion is most attractive. The requirement to pay back the nominal value of the subsidy after conversion would be a small price indeed in many areas of rapidly appreciating real estate values.

We urge the Committee to require that housing developed with this assistance be restricted in its use for at least the useful economic life of the property. The statute should make it clear that the federal government's purpose is to finance and support housing that is set aside for social uses, not for speculative appreciation. Loss of subsidized housing should become the exception, not the rule.

Delegation of Responsibility

The Concept Papers refer to oversight of local and state governments in the administration of the proposed HOP, but the details are too few. Experience in over 10 years of various block grants leads to an inescapable conclusion: success depends on clear, mandated goals; limited objectives; serious requirements for citizen participation in the formulation of plans, their execution and their evaluation; and vigorous federal oversight of plans and performance. The papers do not provide sufficient detail in these areas. Any shift to a block grant approach must include explicit and detailed requirements for the administering entities.

Fostering Diversity

The Concept Papers note the Chairman's own admonition that any new federal housing policy build on what works. Thus we are very troubled by the apparent exclusion of public housing development and rural housing programs from the overall design of the Concept Papers.

Despite its much publicized failures, public housing still provides the largest single supply of decent affordable housing for very low income people. It should continue to play a major role in any federal housing assistance programs. The same is true for the rural housing programs of the Farmers Home Administration.

The Concept Papers suggest that all current housing assistance programs will be folded into the new HOP. This also would be a serious mistake. Groups all over the country have struggled in the last 10 years to master the remaining federal housing assistance programs. They have succeeded in large degree to use the Section 8 Moderate Rehabilitation program, for instance, to repair and keep affordable housing for the very poor. Similarly, countless hours have been spent mastering the low income housing tax credit program. A new shift to a wholly different system for all federal aid would bring these efforts to a standstill. It could be years before state and local governments master a new program, even after predictable HUD delays in issuing program regulations. (Note that the Treasury Department has still not completed its regulatory publications for the tax credit, although it is now two full years since its enactment.)

The Committee should shift its priorities among programs gradually. Emphasis on new programs should build at a pace that allows capacity to develop at all levels, but does not force a halt to all low income housing development while this capacity develops.

Rental Credits

The National Low Income Housing Coalition strongly opposes the recommendation to shift budget authority in the proposed rental credits to only five years. This undermines another suggestion in the Concept Papers which we fully endorse--allowing the credits to be tied to certain units. Lenders and others involved in low income housing production will not underwrite projects for long term financing if they can only be assured of affordability for five years. This kind of short-sighted budgetary juggling simply exacerbates the problem of long term affordability. Owners, whether they are public or private, will not be willing to provide and maintain housing that is affordable to very low income tenants unless there is a guarantee of long-term operating assistance. It is worth noting that the Concept Papers's suggestions regarding the Section 202 program recognize this fact and would provide for a combination of direct grants and long term operating assistance to ensure affordability. Shrinking the commitment for credits to only five years is a transparent budgetary trick to reduce budget authority; it has the unfortunate consequence of also reducing sponsors's ability to meet national objectives.

Preserving the Existing Housing Stock

The Concept Papers's treatment of how to preserve the existing supply of federally assisted, privately owned housing misses the mark. It proposes the formation of a new office in HUD to provide experts to state and local governments, in whom the papers apparently would vest a large degree of responsibility for ensuring the continued availability of this housing to poor tenants. It fails to identify the most important ingredient in successfully preserving this housing, however, and that is new capital resources to repair deteriorating stock and buy out, if necessary, current private owners who wish to convert the housing to other uses.

State and local governments clearly have a role to play in preservation, as do tenants, who are also largely ignored in these recommendations. But the federal government is the only level of government with the resources and the force of law to impose solutions to this dilemma that will be consistent and fair to all involved. A future preservation policy should focus on an aggressive and pro-active policy by the federal government to ensure the continued availability and liveability of all of this housing for the future.

Another area not touched on by the report concerns the preservation of existing public housing. This too will require a massive new commitment of resources. The Concept Papers devote exactly four lines to this issue, a totally inadequate response

to what is clearly one of the most pressing crises confronting many communities today.

Women's Housing Needs

The discussion of the needs of families for housing, particularly women-maintained families, should not be confined to those in public housing and/or those receiving public assistance. There are two groups that should receive particular attention. First are battered women, most of whom also have children; while their need for housing is particularly urgent, to protect themselves from violence, they are often not seen as homeless, or even as in need of affordable housing. Yet, by definition, the 300,000 women and children who were sheltered last year in 1,100 shelters and safe houses were families who needed housing and could not afford it, and thus turned to shelters.

Second, homeless families with children should be targeted under the housing act/McKinney Act's homeless programs. Just as the single homeless need the restoration of single room occupancy (SRO) units, homeless families need a set of solutions that are tailored to their needs.

SUMMARY

Of course, there are elements of the concept papers which we support. Indeed, we support the entire thrust behind the papers, to reinvigorate the federal commitment to low income housing. We are very pleased that the concept papers have adopted the National Housing Task Force suggestion to place more reliance on community-based nonprofit housing sponsors to carry out low income housing programs. The papers are a fruitful point of departure for further conversations.

Mr. Chairman, I appreciate the opportunity to share our views with you today. While we have expressed many concerns and reservations about the substance of the Concept Papers, we applaud you and the Ranking Minority Member's unquestionable commitment to restoring the nation's priority for meeting low income housing needs. We pledge to work with you and your staff in addressing our concerns, and look forward to a legislative commitment that will make available the resources and programs that we need to ensure the promise of a decent, safe and affordable home for every American.

National Low Income Housing Coalition

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Hon. Edward W. Brooke, Honorary Chairperson

Barry Zigas, President

LOW INCOME HOUSING POLICY STATEMENT¹

BASIC PRINCIPLES

Decent, safe and sanitary shelter is one of the bare necessities of life. All people share the basic human right to live in dignity, safety, and security. The federal government bears the fundamental responsibility for ensuring that the opportunity to obtain decent, affordable housing with a choice of location is available to all in our society -- regardless of race, creed, age, family composition, or income level. All housing programs should be responsive to consumer, tenant, neighborhood and community needs and preferences, and accessible to all without regard to race, creed, gender, family composition or handicap.

The federal government has the responsibility and the resources to ensure that adequate housing for low income people is provided throughout the United States in inner cities, in suburbs, in small towns and rural areas. Only the federal government can mount programs which provide uniform standards and protections, while leaving flexibility to states, local governments, and other institutions, including the private sector, to adapt them to the range of housing needs which exist in our country.

Federal housing expenditures should give highest priority to those with the most critical housing needs: people living in inadequate housing; people displaced or threatened by displacement from whatever cause; and people whose incomes are too low to bear the high cost of decent shelter.

These basic principles are fundamental and should undergird all housing policy and program development. Moreover, there is no single approach which, in and of itself, will deal with our low income housing problems. Making decent housing a reality will require a range of policies and programs. In our view, the eight elements of this policy (set forth below) are all essential. They are not alternatives, and none can be omitted. We recognize that there are, in addition, special housing needs which must be addressed: housing for homeless people, for elderly people, for people with disabilities, for special groups such as farmworkers and Indians. We believe that specific approaches to assure that those people's needs are met should be developed within the framework of our policy.

¹ This statement was adopted by the National Low Income Housing Coalition after a long process of review and comment, beginning with distribution of a draft to our membership in August 1983, with requests for additional ideas and comments. The statement was revised several times to reflect the views of our members and board and, finally, was amended and adopted by the delegates to the Second National Low Income Housing Conference in June 1984. It was annotated with more recent figures by Cushing N. Dolbear in December 1986.

Explanation. After close to half a century of housing assistance, there are still millions of people who need it. For every very-low-income renter household living in subsidized housing, there are three others who need it, who probably want it, and who can't get it -- 7.5 million households in all. There are another 10 million owner households in the very-low-income category: households with incomes below 50% of median. Furthermore, we have barely begun to root out housing discrimination.

Moreover, despite the accomplishments of federal housing programs, which now provide shelter to one renter household in 10, there is a growing low income housing crisis. Homelessness is increasing dramatically. Housing quality, after decades of improvement, has begun to decline. Between 1970 and 1980, low rent units (under \$125 per month) were disappearing from the inventory at the rate of almost 500,000 units annually, because of rent increases, conversions, and demolitions.

Meanwhile, the federal government has all but abandoned its historic commitment to "a decent home and a suitable living environment for every American family" as low income housing programs have been slashed more deeply than any other major federal activity. The number of additional subsidized units provided under all HUD and Farmers Home Administration programs has dropped from 321,000 in 1981 to fewer than 154,000 in 1983.²

It has long been recognized that there is simply no way the private sector, unaided and on its own, can provide affordable housing for very low income people. Nor do state and local governments, without federal aid, have the resources to meet the housing needs of their low income residents. Therefore, the primary responsibility for assuring adequate low income housing must rest with the federal government. This responsibility should be carried out in ways that are appropriate to the diversity of housing needs and housing markets, and which elicit the involvement and support of state and local government and a broad range of actors in the private sector.

1. MAKE HOUSING ASSISTANCE AN ENTITLEMENT FOR ALL WHO NEED IT

An adequately funded entitlement income-based housing assistance program is essential to enable low income people to obtain decent housing at costs they can afford. We propose housing allowances recognizing that they must be coupled both with increases in the housing supply and with changes in housing ownership and management, which we address in other portions of this statement.

No one should have to go hungry or do without other essentials because their housing costs too much. No one should have to live in a rural shack or rundown urban unit because decent housing costs more than they can afford.

The federal government should provide housing assistance to all households who cannot otherwise afford decent housing. The assistance should be available to

² The HUD appropriation for FY 1987 will subsidize an additional 81,500 households, most of them with vouchers; another 58,000 households will be subsidized through Farmer's Home Administration rural housing programs, for a total of 139,500.

Senator CRANSTON. Thank you very much. I'd like to comment briefly on your testimony which I value as always.

I think there's some misunderstandings and if you have them perhaps others have some misconceptions also.

First, the staff concept papers do not specify a funding level or an income targeting formula for the HOP program simply because these are key decisions that have to be made by members of this committee at the time that we introduce the bill. They will be made at that time and I will do my best to see that the figures are reasonable and adequate.

I've stated publicly on several occasions that I believe increased funding for affordable housing is justified and achievable. I've also stated my intention to ensure that a substantial share of the housing produced under the HOP program should be reserved for low income tenants.

Second, the concept papers do state that provision should be made for long-term low income affordability of housing produced under the HOP program. They also state that any subsidy would have to be repaid if such long-term affordability is not ensured.

But we do not mean to suggest in any way that the subsidy repayment would be the principle means for enforcing long-term affordability.

Third, the concept papers include no assumption that Farmers Home programs and public housing will be folded into the HOP. To the contrary, I fully expect that a new housing policy will extend and strengthen both the rural housing programs and the public housing program, including public housing production.

I've earlier made clear that I intend to do all I can to continue and strengthen Farmers Home housing programs and public housing, and I reaffirm that now.

Fourth, in dealing with preservation of low income affordability of our low income housing, the concept papers intentionally did not specify new incentives or other mechanisms to save existing low income housing. The 1987 Housing Act already provides such mechanisms for a 2-year interim period. I've publicly stated and it's restated in the concept papers that such provisions are being developed separately and will be included in the legislation that will move next year.

The concept papers were written to encourage the broadest possible discussion on these and other key elements that will have to be in the new legislation and we will be exploring them. But those are at least my personal thoughts on where we will be headed on all of that.

I'd now like to go to Charles Kamasaki.

Senator CHAFEE. Mr. Chairman, might I put in a statement at this time?

Senator CRANSTON. Certainly. Do you have any statement you wish to make at this point?

Senator CHAFEE. No. I have it here in written form. Thank you, Mr. Chairman.

Senator CRANSTON. I also have statements from Senators Dixon and Sasser.

[The prepared statements of Senators Dixon, Sasser, and Chafee follow:]

STATEMENT OF SENATOR ALAN J. DIXON

Senator Dixon. Mr. Chairman, I am pleased to be here this morning for the fourth and final scheduled hearing on the staff concept papers for the development of a National Affordable Housing Act.

Once again, I want to extend my appreciation to Senators Cranston and D'Amato for having taken the lead in this effort.

Mr. Chairman, you may remember, in my statement of September 14, I called to the subcommittee's attention a program that we know is working, the neighborhood housing service [NHS] network. I recommended that the subcommittee build on the NHS network as one means of adding to an adequate supply of affordable housing.

You may also remember my recommendation at the hearing of September 22. I requested that the subcommittee add to its agenda a proposal that will assure that HUD develops a better means of handling its abandoned homes.

Today, Mr. Chairman, I submit for the record an article which appeared in the Chicago Sun-Times on September 25, 1988. According to the article, residents in some 132 units of a rent-subsidized apartment complex in DuPage County, IL, were notified that the owners were terminating their contract to provide subsidized housing. This will leave residents in search for scarce subsidized housing or to pay exorbitant rent increases.

I recommend that each member of the subcommittee reads this article, and that the subcommittee includes on its agenda a re-visit of HUD's fair-market rents as we attempt to develop a National Affordable Housing Act.

Thank you, Mr. Chairman.

both renters and owners, in comparable amounts based on need

The amount should be sufficient to cover the difference between what the household can afford and the cost, including utilities and other housing-related expenses, of decent housing of the size they need in their chosen housing market area. The program should be designed both to provide adequate subsidies and to avoid windfalls to landlords. Occupied housing must meet minimum quality standards.

Explanation. Housing allowances, in and of themselves, have negligible impact on the supply of decent housing. Therefore, a housing allowance program available to all eligible households will heighten the need for low income housing supply programs. Nevertheless, housing allowances must be a major element in any comprehensive approach to dealing with low income housing needs. Where the problem is income alone, as with households occupying standard units at unaffordable rents, allowances are clearly the answer.

One problem that has plagued previous efforts to subsidize housing for low income people is that often their incomes are so low that they can't even afford operating costs (maintenance, utilities, taxes, etc), so subsidies for construction or financing have been inadequate. By assuring that all households have sufficient funds at least to cover operating costs, a housing allowance program will make it far easier to mount successful approaches to preserving, building, or rehabilitating housing for low income people.

The basic problem of very low income households is that they can't pay what decent housing costs. The vast majority of households paying more than half their incomes for shelter can afford less than \$125 per month!

In 1981 the Annual Housing Survey reported 5.4 million renter households and 2.4 million owners who paid more than half their incomes for shelter; their median incomes were below \$6,000. Most of these households lived in standard housing but had to forego other basic necessities in order to pay for it.³

Another 9.0 million renter households and 8.1 million owners paid between one quarter and one half their incomes for shelter. Except for owners with mortgages, their median incomes were less than \$12,000.⁴

Rough estimates of the cost of a housing allowance program such as we propose range from \$10 to \$20 billion annually. This is about half the cost of housing subsidies provided to the wealthy through the tax code, primarily through the deductibility of mortgage interest and property taxes from federal income tax. (See Tax Reform, below.)

³ The 1983 AHS figures show a dramatic increase in these figures. By 1983, 6.3 million renters and 3.6 million owners were paying more than half their incomes for shelter. Moreover, the median income of households in this group had not risen significantly since 1981.

⁴ By 1983 these numbers had increased to 8.7 million renter households and 8.7 million owners.

The National Low Income Housing Coalition is now developing specific proposals for a housing allowance program, recognizing that there are problems in both assuring decent quality and avoiding windfalls to owners.

2. PROVIDE AN ADEQUATE AND AFFORDABLE SUPPLY OF HOUSING

Federal housing programs should support the preservation, construction or rehabilitation of an adequate and affordable supply of housing to meet the needs of low-income people and to maintain the quality and viability of neighborhoods. Until low income housing needs are met, at least 750,000 additional units of assisted housing for low income people should be added to the inventory each year.

Our housing stock must be adequate overall to meet the growing and changing needs of our people. Housing for low income people must be supplied in ways that minimize construction, financing, and occupancy costs, while enhancing neighborhood viability and enlarging housing choice. Supply needs include rehabilitating substandard units and building new ones, as well as preserving the existing low income housing stock. Adequate attention must be paid to changing needs and preferences. Provisions should be made for the use of shared housing, single-room occupancy and other nontraditional types of housing, such as manufactured homes and other nonconventional construction, on the same basis as other housing provided it meets health and safety standards.

No one housing program or approach can adequately deal with the range and diversity of our housing needs. Current federal housing supply efforts -- including public housing, Section 8, Farmer's Home Administration rural programs and the rental development grant program enacted in 1983 -- should be continued, improved and expanded, while exploration continues for approaches that will be better targeted, less costly and more responsive to neighborhood and resident needs. The direct and indirect costs of providing lower-income housing should be reduced by eliminating excess profits, simplifying delivery, placing greater reliance on grants rather than reducing interest costs of long-term loans, and offering credit selectively to provide lower interest rates for housing finance.

The specific needs to be met and the mix between preservation, rehabilitation, and new construction should be determined at the local or state level, subject to federal guidelines and review to assure that the full range of housing needs is considered and adequate opportunity for mobility is provided.

To minimize costs and create greater responsiveness, federal incentives should be provided for reviews of local construction, fire, housing, zoning and subdivision requirements. Manufactured homes and other forms of nontraditional housing that meet basic health and safety standards should not be discriminated against by land use regulations or tax policy and should be eligible for federal assistance. Traditional building materials, such as adobe, and new materials that promise lower costs or greater durability without compromising health and safety standards should be permitted.

Explanation. Almost half a century of providing subsidized housing has produced fewer than four million new or rehabilitated units of housing restricted to lower income occupancy under all urban and rural housing programs.

The long-run costs of low income housing can best be kept down by providing an increasing stock of units under public, nonprofit, or occupant ownership and thus decreasing the adverse impact of speculation and inflation on housing. Thus, low income housing supply programs are an essential component of an overall policy.

The proposal that at least 750,000 affordable units be provided each year for low income people sets a specific goal that will enable low income people to catch up. This would, over a 10-year period, provide housing for the 7.5 million very-low-income renter households for whom subsidized housing is now unavailable.

3. RETAIN AND IMPROVE THE PRESENT HOUSING STOCK TO PROVIDE DECENT HOUSING FOR LOWER INCOME PEOPLE

Our existing housing stock is a valuable national resource that must not be allowed to deteriorate. The ownership of housing should be regarded as a public trust and all owners should have the responsibility to keep their units occupied and in decent condition. The federal government has a special responsibility to see that units which it owns or assists are maintained in viable condition and retained for low income occupancy.

Preserving and making best use of our stock of existing housing is key both to the provision of decent, affordable housing for low income people and to viable neighborhoods. The basic responsibility for keeping housing occupied and in decent condition rests with its owners.

Because housing is/a basic human need, and because the use and condition of housing has a large impact on our neighborhoods and communities, we believe that the ownership of housing carries with it a public trust, which should be reflected in public policy and laws. The responsibility to keep housing in decent condition is already recognized in local housing codes and code enforcement programs. We believe that there should be a similar responsibility to keep housing occupied, provided there are those who are ready and willing to live in it. This should be a basic goal of public policy at the federal, state and local levels. Where these policies fail, we support organized, responsible squatting efforts to rehabilitate vacant and abandoned properties and return them to use.

The current stock of federally assisted and insured housing now occupied by low and moderate income people must be retained for their use, with the necessary operating subsidies and modernization or improvement funds provided to keep it in viable condition and fully occupied. (This includes all present public housing, HUD-assisted, HUD-insured and HUD-held units, as well as units assisted by the Farmers Home Administration or repossessed by the Veterans Administration.)

So long as the need is there, every housing unit that the federal government subsidizes or takes possession of through delinquency or foreclosure should be made available, with adequate subsidies, for low income people. The federal government should also encourage state and local governments to do the same with housing that comes into their possession or control.

Explanation. Over the past several years, we have had a steady loss of

low rent units from the housing stock. Much of this loss has been the direct or indirect result of federal policies, including the provisions of the tax code that provide strong incentives for sale or conversion of rental housing to higher income use. In addition to these private sector units, we are threatened with the loss of thousands of units from the subsidized stock through demolition, sale, conversion or other disposition of projects. This must be halted.

The least expensive way to provide decent, affordable housing is to maintain our present housing stock in good condition, and, where it is already subsidized, to retain it for low income use. It is penny-wise and pound-foolish to skimp on needed subsidies or assistance for operations, maintenance and modernization, or to permit low income units to be demolished or converted to higher income use.

Too often, low income housing programs have been administered with more emphasis on restraining spending than on providing decent homes and living environments. Too often, the federal assistance provided has been inadequate to operate or maintain the units. Too often, tenants have been blamed for this state of affairs. Too often, subsidized housing developments have been regarded as problems, not as the resource needed to meet critical housing needs. In these times of low income housing crisis, no unit that can be used by low income people should be abandoned.

4. PROVIDE RESIDENT CONTROL OF HOUSING THROUGH A STRONG ROLE FOR TENANT ORGANIZATIONS, LIMITED EQUITY COOPERATIVES, COMMUNITY-BASED HOUSING GROUPS, AND HOME OWNERSHIP.

Housing is an essential part of the basic fabric of our communities and neighborhoods. To a large degree, our housing affects the nature of our family and community life. Control of one's housing provides a stake and a sense of security that can be provided in no other way. Therefore, federal housing programs should foster a variety of approaches to resident control over housing, including genuine tenant participation in decision-making, ownership of housing by community-based, nonprofit organizations, limited equity cooperatives, and individual home ownership.

Community based, nonprofit organizations and limited equity cooperatives should have a major role in the provision of housing. Federal assistance should be provided to these organizations to enable them to meet the broad range of housing needs at the neighborhood and community level.

Federal housing programs should be structured to directly support and assist community-based nonprofit organizations and limited equity cooperatives to become major housing providers. This requires access to financing, including subsidies where necessary, and technical assistance and outreach, particularly to minority communities, and organizational support and funding. This will require a long-range approach with strong emphasis on capacity-building, particularly in rural areas and for organizations in low income communities without prior experience in producing or managing housing.

Tenant participation in decision-making on management and operations should be required in all assisted housing programs. This includes funding for tenant organizations and tenant-elected, voting representatives on boards of housing

authorities and other institutions owning or operating subsidized housing.

All tenants in federally assisted housing should have at least the following minimum protections against unfair treatment: (a) prohibition of unconscionable lease terms and utility shut-offs; (b) eviction only for just cause; (c) information on their rights and access to fair procedures for settling grievances; (d) reasonable landlord rules and requirements; and (e) warranty of habitability and remedies of repair-and-deduct, rent withholding, and rent abatement upon breach of the warranty. State and local governments should adopt comparable standards for private, nonassisted housing.

Low income households should not be confined solely to the rental housing stock. New home ownership programs, in both rural and urban areas, are needed to provide this option. Housing subsidies covering utilities, taxes, and maintenance, as well as assistance in downpayments, closing costs and low interest or deferred payment mortgages, should be extended to home owners. Adequate counseling services should be available.

Low income families who now own or are buying their homes should receive affirmative government assistance to maintain themselves in their homes. Such assistance should include bilingual information on programs and assistance available from lenders and the government, emergency mortgage and foreclosure relief, property tax relief based on income, assistance with utility costs, repairs, and maintenance, weatherization and retrofitting.

Explanation. A major thrust of our policy is to create more responsive institutions and to transform the production and management of low income housing, so that control is in the hands of residents. This cannot be done overnight and is best approached by enabling limited-equity cooperatives and nonprofit organizations to build their capacity to the point where they become the major providers and managers of housing occupied by low income people, as well as by supporting more traditional forms of home ownership.

This emphasis is to put control where we believe it belongs, to provide mechanisms for accountability, and to keep long-run costs down.

The recommendations on tenant participation are to assure control and accountability. They are phrased to give tenants themselves the choice of how deeply they wish to be involved in day-to-day management decisions.

5. END DISPLACEMENT OF LOW INCOME PEOPLE

Displacement of low-income people by either public or private action or inaction should be ended. Under no circumstances should people be forced to leave a neighborhood where they wish to remain. When displacement from a particular unit cannot be avoided, alternative housing should be provided nearby, in the same block whenever possible. Until this objective is achieved, federal policies and programs should provide immediate and adequate protection for people threatened by displacement.

National policy should focus on the prevention of displacement by private as well as public actions. Housing and community and economic development programs should be designed and carried out so as to benefit low-income people and their neighborhoods. Federal programs should, as a condition of participation,

require local public officials to carry out the policy and, if displacement nevertheless occurs, to replace any low income units lost on a one-for-one basis and cover all costs of moving. Effective means must be developed for carrying out this responsibility.

The antidisplacement efforts of neighborhood organizations, such as community development corporations, community credit unions, neighborhood planning, and neighborhood counseling should be aggressively supported by all levels of government and the private sector.

Condominium conversions should not be allowed to displace tenants or reduce the stock of low- or moderate-income housing. All conversions should require the approval of a majority of the building's tenants, and tenants in units subject to conversion should have the choice of life tenancy at limited rents or the first option to buy their unit and 180 days to decide. This will require the development of new programs of housing assistance for continued rental or purchase where tenants have limited means. The special problems of displacement from mobile home parks, through conversions or for other reasons, must be addressed.

Low income conversion options, such as limited equity cooperatives or subsidies for condominium ownership, should be developed, and adequate technical assistance and funds for low income purchase and rehabilitation provided.

Explanation. Displacement is a major threat to low income people. Some displacement occurs through direct public taking. More occurs because of private activity, generally stimulated by public efforts such as tax incentives or publicly supported revitalization activities. In other neighborhoods, displacement is caused by neglect and government inaction, or the writing off of neighborhoods as no longer viable and the withdrawal of services from them. A particular, often-unrecognized problem is displacement from mobile home parks, whose owners wish to convert to other use; frequently, because of exclusionary policies, there are no alternative mobile home sites in the communities where these parks are located.

It has been estimated that each year in this country, displacement affects some 2.5 million people and 500,000 low rent units are lost.

In addition to conditioning federal assistance on adequate state and local efforts to prevent displacement, the federal government can do three things to deal with this situation: (1) it can assure that its own funds and programs are not contributing to displacement; (2) it can see that people are not displaced from federally owned or controlled housing; and (3) it can assure that replacement housing is provided for people displaced by other causes on a one-for-one basis at comparable rents.

6. STRENGTHEN AND ENFORCE FAIR HOUSING LAWS AND EQUAL OPPORTUNITY REQUIREMENTS

To protect against discrimination in housing, the present federal fair housing law must be aggressively enforced and strengthened to provide for effective administrative enforcement procedures, and expanded to protect persons with disabilities and families with children. Housing choices for low income families must be geographically expanded, especially in relationship to job

opportunities.

Enforcement of the existing law (Title VI of the Civil Rights Act of 1964 and Title VIII of the 1968 Civil Rights Act) by HUD, FmHA, VA and the federal financial regulatory agencies should be strengthened. HUD should issue and enforce substantive regulations implementing Title VIII.

FmHA and HUD should adopt affirmative policies to prevent any discrimination against families with children in federally assisted housing. Federal policies and programs should provide an adequate support of housing for large, low income families.

Low income households must be provided with a wide range of geographic choice for decent and affordable housing. This is particularly true where the decentralization of jobs has made many employment opportunities inaccessible to low income persons. Communities should be responsible for seeing that housing opportunities are provided for the people who work there. To help keep older areas viable, there is a concurrent responsibility to provide job opportunities where people now live.

A condition for provision of housing or community development funds to state or local governments should be a fair housing plan with the following federally approved minimum elements: (1) a plan for enforcing a fair housing law at least equivalent to the federal law; (2) a plan for the identification and continued review of barriers to fair housing, including a review of zoning and land use regulations; (3) a strategy for meeting fair housing needs, including a review of the human rights impact of all major development activities; (4) a means for outreach, education and involvement of all relevant sectors of the community in promoting fair housing policy; and (5) a plan for inter-jurisdictional coordination of fair housing activities.

Explanation. Despite passage of the fair housing law almost a generation ago, discrimination is still a fact of life in housing markets. In large part this is because of the absence of effective enforcement provisions in the federal fair housing law. In addition, the law does not now cover discrimination against families with children or persons with disabilities. We therefore join in supporting a stronger federal fair housing law, as proposed by the Mathias-Kennedy bill.⁵

This is an important first step, but additional measures will be needed to root out housing discrimination. Positive action is necessary to link responsibility to provide low income housing with the location of jobs and opportunities for employment and education. State, local, and regional planning must include consideration of fair housing impact and measures to overcome discrimination and widen housing opportunities.

7. REFORM FEDERAL TAX LAWS TO REFLECT PRIORITY FOR AIDING PEOPLE WITH THE GREATEST HOUSING NEEDS

The enormously costly and inefficient housing subsidies that are now provided through the tax code should be changed to direct them where they are needed and productive. Mortgage interest and property tax deductions should be converted

to tax credits, and the amount of these credits should be capped at a level which will protect low and middle income home owners while curtailing subsidies to people who do not need them to obtain affordable housing. The additional revenue obtained by doing this should be used to meet low and middle income housing needs.

As soon as adequate supply and financing programs are put in place, the special tax subsidies and preferences provided to investors through the tax code should be ended. Until then, they are needed to supplement the pitifully low level of federal, state and local housing assistance programs and to make most of these programs viable, but they should be as tightly targeted as possible, and the targeting provisions should be rigorously enforced. Cooperatives should be eligible for tax subsidies on the same basis as rental housing. The tax subsidies that are now provided for syndication of rental housing developments should be made refundable (payable directly in cash where no taxes are owed to offset the deductions), so that nonprofit and community based housing groups can get the full amount of the federal subsidy, without having to split it with investors who otherwise have no interest in the project.

Federal tax laws, which now force many investors in rental housing to sell or convert, should be amended to remove these incentives and discourage displacement. Pending such change, sales to tenants or tenant organizations should not be subject to discriminatory, differential tax provisions. Where housing will be sold to tenants or nonprofits approved by tenants, prenegotiated prices should be permitted.

Explanation. Each tax dollar that the federal government does not receive because of deductions or preferences in the tax code has just as much impact on the deficit as each dollar of direct spending. Viewed in this context, most federal housing expenditures are tax expenditures. Most middle income home owners count on these subsidies. But these owners receive less than one-third of the total subsidies. Meanwhile, low income owners and renters are excluded from housing assistance, and the bulk of our tax expenditures for housing goes to people at the top of the income distribution. (The cost of these subsidies is more than four times the amount appropriated for low income housing for fiscal 1984.)⁶

1984 housing-related tax expenditures are estimated by the Congressional Budget Office at about \$50 billion. About 75% of this amount goes to the top 15% of the income distribution. Cutting in half the amount received by the rich, and leaving the rest unchanged, would increase federal revenues by enough to cover the cost of all our other proposals.

There are clear indications that overhaul of federal tax laws will be a major concern in coming years. Because of this, and because of the great current importance of tax provisions to the production and management of housing, it is critical that housing advocates participate in the process, and that tax reforms be adopted which protect the needs of low and middle income people, while avoiding windfalls and inefficient subsidies.

⁵ This bill will need to be reintroduced in the 100th Congress.

⁶ By FY 1987, the cost of housing-related tax subsidies was estimated by OMB at \$48.1 billion, while assisted housing outlays of \$12.2 billion were proposed in the Administration's budget.

8. PROVIDE THE FINANCING NEEDED TO PRESERVE, BUILD, AND REHABILITATE HOUSING.

Monetary and credit policies should be shaped to provide reasonable financing costs for housing and limit credit-related fluctuations which increase the costs, prices, and rents of all housing. Affordable property insurance and affordable financing for the purchase, renovation and improvement of housing should be available in all neighborhoods, without discrimination of any kind.

Our nation's housing needs cannot be met if financing is unavailable or unaffordable. The needed flow of credit into housing must be maintained, as must institutions capable of providing it at the community and neighborhood level. Housing should be protected, through national credit allocation or other mechanisms, from the impact of federal monetary and credit policies. Credit institutions, such as savings and loan associations, established primarily to provide financing for housing, should not be permitted to abandon this special purpose. We support the establishment of an explicit housing finance mandate for thrift institutions to help assure the flow of housing credit.

Federal policy should encourage a continued supply of housing loans that do not expose homeowners to excessive interest rate risk or refinancing uncertainty. Consumer protections for borrowers who obtain adjustable rate mortgages and continued availability of standard fixed rate mortgages for those borrowers who desire them should be guaranteed by legislation.

Federal oversight of the obligation of all depository institutions (savings and loans, savings banks, and commercial banks) to serve the housing credit needs of their entire community, including low and moderate income areas, older urban neighborhoods, rural areas, and minority and female-headed households, should be strengthened, and the Community Reinvestment Act should be vigorously enforced.

Beyond these general approaches, aimed at creating a climate for steady production of unsubsidized housing, a variety of special mechanisms are needed to support the production and rehabilitation of housing for low income people. We believe new institutions are needed, such as housing trust funds or a national housing bank, to provide community based groups and limited equity cooperatives with financing for low income housing, including, as appropriate, grants, interest-free or low interest loans, graduated interest loans or whatever financing is required to produce the housing needed. These funds could be used to supplement or leverage funds from other sources, including state, local, and private funds.

Foreclosure relief should be provided to owners threatened with loss of their homes for reasons beyond their control as well as for tenants threatened with displacement because of foreclosures on owners.

Explanation. Housing has long been peculiarly vulnerable to monetary policy and fluctuations in the cost of credit. The problem of obtaining adequate credit affects much of the housing market, but is particularly critical to efforts to provide low income housing. Federal deregulation has undermined the role of savings and loan institutions, long the major source of housing credit, as a primary source of funds for housing. While these institutions may need added asset flexibility because of decontrol of interest rates on deposits, there is no reason to permit them to

abandon their role as housing specialists. A federal housing mandate is required to enable thrift institutions to resist pressures to expand into commercial and other short term lending.

During the credit crunch of the past several years, the mortgage market shifted rapidly to adjustable rate and short term balloon mortgages that shift considerable risks of higher interest rates and refinancing uncertainty to home purchasers. Legislation is needed to assure a continuing supply of fixed-rate mortgages and to minimize the risks to the consumer of adjustable rate or balloon mortgages. Continued oversight is also needed to assure that the mandate to serve community needs is followed in the face of pressures on financial institutions to orient their services toward upper income and large depositors.

Our housing needs are too important to leave the availability of funds to the whim of the marketplace. We need a continued, positive commitment by the federal government to do what is necessary to see that credit for housing is available on reasonable terms.

Even where programs are in place, financing is often an almost-impossible barrier, particularly to community-based groups. For this reason, the Coalition is actively exploring new financing mechanisms, which can provide needed funds on an affordable basis.

* * * * *

300 facing eviction threat

Du Page rent squeeze

By John Stebbins

About 300 elderly, disabled and poor people living in a rent-subsidized apartment complex in Du Page County face being homeless this winter.

"I don't know where I will go," said Beatrice Herzog, 75. "I have friends here. This is my home."

Herzog has cancer and lives on a \$358-a-month Social Security check. She is just one of scores of senior citizens living at the apartment complex and facing a troubled future.

Herzog and her neighbors are victims of a growing national problem in which developers of low- and moderate-income housing are dropping their contracts with the U.S. Housing and Urban Development Department.

Last week, residents in 132 units of the Chateau Village Apartments in Carol Stream were notified that the owners were terminating their contract to provide subsidized housing, the Chicago Sun-Times has learned.

Housing advocates say this is the first time a Du Page apartment complex has decided not to renew its HUD contract, leaving residents to scramble for scarce subsidized housing or pay huge rent increases from shoestring budgets.

The reason? HUD refused to pay fair-market rents, the owners said.

Fifteen years ago, thousands of apartment owners and developers jumped at HUD's programs, attracted by low-cost mortgages and the prospect of filling empty apart-

ments with guaranteed tenants.

But a growing demand for housing in the '80s—especially in booming areas like Du Page—and HUD's reluctance to pay fair-market rents are driving landlords from the programs and forcing tenants to seek other housing.

Such is the case for Herzog and her neighbors.

A majority of Chateau Village residents receive Section 8 rent subsidies from the federal government. They pay 30 percent of their income toward rent. HUD makes up the difference.

"The owners want to keep us here, but HUD wants to get rid of us," said Larry Saladino, 41, a Chateau Village tenant who lives on a disability check. "They want to wash their hands of the elderly and the children here."

"They will be given housing vouchers," said Adolph Slaughter, regional HUD spokesman, "but they must still find housing. We cannot force an owner to remain in the program when he legally can get out."

HUD critics maintain that subsidized housing in Du Page County is almost impossible to find and that the department only has 5,000 vouchers for the entire country. Vouchers enable a tenant to apply for subsidized housing.

Elaine Libovitz, executive director of the Du Page Housing Authority, said, "HUD has not set aside enough vouchers for this. All of our subsidized housing in Du Page is in danger of being lost."

Slaughter pins the crisis on



Patricia Anderson, 75, ponders her future at her Chateau Village apartment in Carol Stream. She is being forced to move.

"greedy developers who are seeking loopholes" to get out of providing housing for the poor.

Edward Schulz, vice president of A&R Katz Management, Inc.,

agents for the complex, said, "We would be happy to renew our contract if HUD would come close to what the fair-market rents are."

HUD allows Chateau Village to

charge \$400 per month for a subsidized one-bedroom apartment, including both tenant and HUD payments.

Chateau owners are asking HUD for \$465 for a one-bedroom apartment in 1989, but HUD says it will stick to the current rate of \$400.

The department's own figures show the 1987 fair-market rent in Du Page County to be \$477. For 1989, HUD calculates the fair market value at \$496.

"We have not received a rent increase in the last three years," said Schultz. "If we can't reach an agreement with HUD by February, then the residents will have to pay for the increase."

Caught between HUD's money policies and marketplace pressures in the nation's third-fastest growing county, Chateau residents are the first of many who will face similar circumstances, experts say.

"This is a substantial problem, nationally, especially in areas that are booming," said Catherine M. Bishop, staff attorney for the National Housing Law Project in Berkeley, Calif.

Cathy Cloud, assistant director of Hope Fair Housing in Lombard, estimates that about 2,200 low- and moderate-income housing units out of 3,400 subsidized units may be lost in Du Page by 1995 under current contracts and HUD policies.

"In Cook County, thousands of families eventually will be affected by this," said Gary Jump, coordinator of Section 8 programs for the Cook County Housing Authority. "Nationally, there will be 1 million to 2 million families that are going to be without homes."

STATEMENT OF SENATOR JIM SASSER

Senator SASSER. Mr. Chairman, today we conclude our series of four hearings on the concept papers for a National Affordable Housing Act. I think the testimony of the witnesses has been excellent. We have developed a record in the subcommittee that will greatly assist us in drafting legislation.

Today's testimony will show clearly that this legislation is long overdue. We will hear about welfare hotels in New York, where it costs \$53,000 annually to house a homeless family. We will hear about the social ills, the decrepit conditions, the crime and the disease to which families that must live in these places are exposed.

This type housing is not an efficient use of the Government resources. Welfare hotels should be abolished as soon as possible, sooner than the 5 years proposed by the staff.

Mr. Chairman, it's easy to see what has happened. Since 1980, Federal funding for subsidized housing has been cut 70 percent.

New York is a case in point, as to the result of those spending cuts. In 1981, New York received funding for 6,000 new low and moderate income housing units. In 1986, it received funding for fewer than 1,000 units. Over this time period, the waiting list for subsidized housing in New York increased from 162,000 to 200,000.

Now New York may be an extreme example, but it is a national problem. In Memphis and in Nashville, in my home State, the number of families on the streets is increasing at an alarming rate.

Mr. Chairman, I am looking forward to getting going on a housing initiative. Thank you again for your leadership on this issue.

Thank you, Mr. Chairman.

STATEMENT BY
SENATOR JOHN H. CHAFEE
IN THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
HEARINGS ON THE NATIONAL AFFORDABLE HOUSING ACT

SEPTEMBER 28, 1988

WITH TODAY'S HEARINGS WE CONTINUE THE PROCESS OF EXAMINING THE STAFF CONCEPT PAPERS FOR A NEW NATIONAL AFFORDABLE HOUSING - ACT. THE KEY QUESTIONS WE MUST CONSIDER: WHO IS IN NEED OF WHAT TYPE OF HOUSING SERVICES, AND HOW ARE WE BEST TO DELIVER THOSE SERVICES? AND SO IT IS FITTING THAT TODAY WE HAVE REPRESENTED HERE THE ORGANIZATIONS MOST EXPERIENCED AND MOST SUCCESSFUL IN DELIVERING HOUSING AND SUPPORTIVE SERVICES TO THOSE IN NEED.

IN THIS VEIN I'D LIKE TO EXTEND A PARTICULAR WELCOME TO PAUL SHERLOCK, HERE ON BEHALF OF THE ASSOCIATION OF RETARDED CITIZENS. ARC HAS SPONSORED THE DEVELOPMENT OF A TREMENDOUS AMOUNT OF COMMUNITY-BASED HOUSING FOR THOSE WITH DISABILITIES, AND SO IS UNIQUELY QUALIFIED TO OFFER VIEWS FROM THE REAL WORLD. MR. SHERLOCK, FORMERLY PRESIDENT OF RIARC AND CHAIRMAN OF THE SPECIAL EDUCATION DEPARTMENT AT RHODE ISLAND COLLEGE, IS CHAIRMAN OF THE

HOUSE FINANCE SUBCOMMITTEE ON HUMAN SERVICES IN THE RHODE ISLAND
STATE LEGISLATURE.

THE NEEDS WE MUST ADDRESS ARE COMPLEX, VARIED, AND, IN ALL CASES, PRESSING. WE ARE EXPERIENCING SHORTAGES IN THE TYPE AS WELL AS THE QUANTITY OF LOW-COST RENTAL HOUSING. IN MY HOME STATE, FOR EXAMPLE, WE HAVE A TREMENDOUS NEED FOR SUPPORTIVE HOUSING FOR THE ELDERLY. WE HAVE A DEMONSTRATION PROJECT UNDER THE CONGREGATE HOUSING SERVICES PROGRAM IN OPERATION AT MORIN HEIGHTS IN WOONSOCKET WHICH HAS BEEN SUCCESSFUL IN AVERTING PREMATURE INSTITUTIONALIZATION -- BUT IT IS, AFTER ALL, ONLY A DEMONSTRATION PROJECT. IT COULD BE REPLICATED TO GOOD EFFECT THROUGHOUT THE STATE.

THERE ALSO IS A DISTINCT NEED FOR "VERY-LOW" INCOME RENTAL HOUSING -- THAT IS, HOUSING FOR THOSE WITH INCOMES BELOW 50 PERCENT OF MEDIAN. IT IS ESTIMATED THAT IN RHODE ISLAND, THE NUMBER OF VERY-LOW INCOME HOUSEHOLDS EXCEEDS THE NUMBER OF VERY-LOW INCOME UNITS BY 106 PERCENT.

OF CONTINUING CONCERN, OF COURSE, IS THE IMMINENT EXPIRATION OF FEDERAL SUBSIDIES AND RENT RESTRICTIONS. AS A RESULT OF THE NOTICE REQUIREMENTS IN THE 1987 HOUSING BILL, SEVERAL OWNERS IN MY STATE HAVE ANNOUNCED THEIR INTENT NOT TO RENEW THEIR SECTION 8 CONTRACTS AT THE EXPIRATION DATE. THE PRESERVATION OF THE EXISTING

STOCK OF AFFORDABLE HOUSING IS AN AREA THAT WILL NEED OUR CONSTANT ATTENTION THROUGHOUT THE COMING MONTHS, AND WILL REQUIRE A HIGH DEGREE OF COOPERATION AMONG ALL OF US THAT ARE CONCERNED.

IN CLOSING, I WOULD LIKE TO THANK SENATORS CRANSTON AND D'AMATO FOR THEIR LEADERSHIP ON THIS ISSUE. YOU HAVE BROUGHT THESE ISSUES TO THE FOREFRONT OF ATTENTION -- WHERE THEY NEED TO BE IF WE ARE TO MAKE MEANINGFUL PROGRESS TOWARD MEETING OUR CHALLENGES IN HOUSING.

Senator CRANSTON. Thank you.

**STATEMENT OF CHARLES KAMASAKI, DIRECTOR OF POLICY
ANALYSIS, NATIONAL COUNCIL OF LA RAZA**

Mr. KAMASAKI. Thank you, Mr. Chairman. My name is Charles Kamasaki. I'm director of policy analysis for the National Council of La Raza.

At this time, Mr. Chairman, we would request the opportunity to provide a more detailed written statement for the record at a later date.

Mr. Chairman, the National Council of La Raza and its affiliates have long viewed action to improve the substandard housing conditions facing Hispanics as a national program priority. Since 1972, the Council has provided direct, on-site technical assistance to communities and community-based organizations in the planning, financing, development, and management of housing construction and rehabilitation programs. These include self-help rehabilitation programs in Texas funded by the Farmers Home Administration; Farmers Home Administration-financed limited-equity cooperatives and a series of Department of Housing and Urban Development housing developments for low-income, elderly and handicapped persons.

THE HISPANIC PROBLEM

To add to this wealth of practical experience the National Council has recently published an in-depth study of housing issues entitled "The Hispanic Housing Crisis," which has previously been made available to the subcommittee. The report finds, based on an analysis of data from the 1983 Annual Housing Survey, supplemented by more recent data from the Bureau of the Census, that, among other findings:

Hispanics are less likely than other Americans to be home owners. Only 43 percent of Hispanic households were home owners in 1983 compared to 65 percent of the general population.

The report further finds that housing quality is a major problem for Hispanics, who are more than twice as likely than non-Hispanics to live in substandard housing and more than four times as likely to live in overcrowded conditions than the general population.

We find further, Mr. Chairman, that housing affordability is perhaps the most critical problem. One Hispanic household in ten paid more than 70 percent of its income for housing in 1983; nearly two in five paid more than 30 percent.

And despite the low incomes, relatively few Hispanics receive housing assistance. Only 8 percent of Hispanic households receive housing assistance; 5 percent live in public housing and 3 percent receive other housing assistance.

The report concluded that housing discrimination against Hispanics is pervasive and cited studies in Dallas, Denver, Boston, Phoenix, Houston, Washington, DC and San Jose, CA, which have identified serious levels of housing discrimination against Hispanic Americans.

We further find, Mr. Chairman, that tens of thousands of Hispanic families currently residing in subsidized housing are threatened with eviction due to the "prepayment and conversion" of existing housing.

And because Hispanics have a high proportion of renters, Hispanic households are much more vulnerable to displacement by gentrification and conversion of unsubsidized housing; we estimate that at least half a million or more Hispanics are threatened with immediate displacement from their homes.

Given the massive and growing Hispanic housing crisis facing Hispanic Americans, we reviewed the staff concept papers with great interest and I would share Mr. Zigas' general reaction. I think the kindest thing we can say about the subcommittee's concept papers is that we are disappointed and we would note three major concerns.

First, the concept papers fail to specify specific dollar amounts for either the recommended programs or an effective housing policy. Notwithstanding the chairman's explanation, we find that it is inadequate to simply establish a structure when the real issue is the level of resources that are necessary.

Second, we believe that the concept papers neglect those Americans with the greatest needs. While we recognize that homeownership programs for middle-income persons may have merit, we strongly believe that lower-income Americans with the greatest and most basic needs should receive the highest priority for assistance, whereas the concept papers would appear to suggest the opposite.

Third, the concept papers' view of the role of community-based organizations in the development of low-income housing is inadequate. Community-based organizations provide an able and tested mechanism in developing and maintaining low-income housing; yet there is virtually no mention of their role in a new housing policy.

We respectfully suggest, therefore, that the concept papers are seriously inadequate. In the following section of my testimony we identify the major principles that we believe should underlie any major new housing policy.

The first is that any major new housing policy should be comprehensive in its approach. Meeting the needs of Hispanics requires a comprehensive approach combining a variety of public and private efforts. Increasing the housing stock alone will not benefit low and moderate income families if the expanded housing supply is not affordable. Similarly, simply providing low-income renters with subsidies will not fully address their housing needs, given the shortage of available low-income rental units. And ultimately, neither initiative will assist low-income Hispanics if there is continued housing discrimination.

Second, we argue for major community involvement. Major new housing initiatives should promote and expand the role of community-based organizations as part of a comprehensive approach to addressing the housing crisis. We would note that greater community-based organization involvement has dual benefits. It both ensures organized community input in the development of housing and eliminates financial incentives for prepayments and conversions.

Finally, we would note that major new resources will be required and the issue is not a question of affordability but a question of will. And we would associate ourselves with Mr. Zigas' remarks on those issues.

Thank you.

[The complete prepared statement of Mr. Kamasaki follows.]

STATEMENT OF CHARLES KAMASAKI
DIRECTOR OF POLICY ANALYSIS
NATIONAL COUNCIL OF LA RAZA

I. INTRODUCTION

Mr. Chairman and members of the Subcommittee, my name is Charles Kamasaki, and I am Director of Policy Analysis for the National Council of La Raza, one of the nation's largest Hispanic organizations. The Council is a private nonprofit organization, headquartered in Washington, D.C., which represents more than 80 local Hispanic community-based organizations in 32 states and the District of Columbia. We are pleased that the Subcommittee is holding hearings on the National Affordable Housing Act and we appreciate the opportunity to present our views on this important issue.

The National Council of La Raza and its affiliates have long viewed action to improve the substandard housing conditions facing Hispanics as a national concern and a major program priority. Since 1972, the Council has provided direct, on-site technical assistance to communities and community-based organizations in the planning, financing, development, and management of housing construction and rehabilitation programs. These projects include a series of self-help rehabilitation programs in Texas financed by the Farmers Home Administration (FmHA); one of the only FmHA-financed limited-equity cooperative in the United States (Arizona) and a series of Department of Housing and Urban Development (HUD) housing developments for low-income, elderly and handicapped persons (Texas, Arizona and California).

II. HISPANIC HOUSING CONDITIONS AND TRENDS

To add to this wealth of practical and political experience, the National Council of La Raza has recently published an in-depth study of housing issues entitled "The Hispanic Housing Crisis." The report examines the housing

characteristics, trends, and problems of Hispanic households in the United States and offers specific policy initiatives to address these problems. The report is based on an extensive analysis of data from the 1983 Annual Housing Survey and supplemented by more recent data from the U.S. Bureau of the Census and other sources.

Among the major findings of the report are:

- Hispanics are less likely than other Americans to be homeowners. Only 43% of Hispanic households were homeowners in 1983, compared to 65% of the general population.
- Housing quality is a major problem for Hispanics. Hispanics are more than twice as likely than non-Hispanics to live in substandard housing. The report states that 17% of all Hispanic households live in substandard housing as compared to 7% of non-Hispanic households. Hispanic households are more than four times as likely to live in overcrowded conditions than the general population. Hispanic households experience overcrowded conditions in 16% of their units compared to 4% of the general population.
- Housing affordability is an even more critical problem. One Hispanic household in ten paid more than 70% of its income for housing in 1983; nearly two in five paid more than 30%. The lower a household's income, the worse the problem of affordability becomes.
- Despite low incomes, relatively few Hispanics receive housing assistance. Only 8% of Hispanic households receive housing assistance; 5% live in public housing, while 3% receive other housing assistance.
- Housing discrimination against Hispanics is pervasive. Studies in Dallas, Denver, Boston, Phoenix, Houston, Washington, D.C. and San Jose, California, have identified serious levels of housing discrimination against Hispanics.
- Tens of thousands of Hispanic families currently residing in subsidized housing are threatened with eviction due to the "prepayment and conversion" of subsidized housing, the expiration of existing subsidy contracts, and the physical and financial deterioration of the subsidized housing stock.
- Because of the high proportion of renters, Hispanic households are more vulnerable to displacement by gentrification and conversion of rental housing either to condominiums or to higher-income occupancy. Without immediate policy intervention, more than 489,000 Hispanics are threatened with displacement from their homes.

III. ANALYSIS OF STAFF CONCEPT PAPERS FOR THE NATIONAL AFFORDABLE HOUSING ACT

The kindest thing that we can say about the Subcommittee's concept papers is that we are disappointed. The concept papers include some worthwhile proposals and innovative ideas; however, they simply fail to address the greatest issues of greatest importance to Hispanics and other low-income Americans.

We will be submitting more detailed comments on specific aspects of the Concept Papers in our written statement. However, allow me to identify our three major concerns:

First, the concept papers fail to specify dollar amounts for either the recommended programs or an overall housing policy. Every major policy report on housing issued in recent years has confirmed the large and growing crisis faced by low- and moderate-income Americans. Resolving this crisis will require a massive, sustained effort. No program or set of programs, no matter how clever or innovative, can be effective without sufficient funding. We are therefore extremely concerned that the concept papers do not address this fundamental issue.

Second, the concept papers neglect those Americans with the greatest needs. While we recognize that homeownership programs for middle-income persons may have merit, we believe that lower-income Americans with the greatest and most basic needs should receive the highest priority for assistance. The concept papers would appear to suggest the opposite.

Third, the concept papers view of the role of community-based organizations in the development of low-income housing is inadequate. Community-based organizations provide an able and tested mechanism in developing and maintaining low-income housing; yet, there is virtually no mention of their role in a new housing policy.

We respectfully suggest that the concept papers are therefore seriously inadequate. In the following section, we identify the major principles that

should underlie any major new housing policy, and provide specific recommendations for the Subcommittee's consideration.

IV. RECOMMENDATIONS

A. Principles for a New Housing Policy

1. Comprehensive Approach

Meeting the housing needs of Hispanics requires a comprehensive approach which combines a variety of public and private efforts. For example, increasing the housing stock will no benefit low- and moderate-income families if the expanded housing supply is not affordable. Similarly, simply providing low-income renters subsidies such as vouchers will not fully address their housing needs given a shortage of available low-income rental units. Ultimately, neither initiative will assist low-income Hispanics if there is continued housing discrimination.

2. Community Involvement

Major new housing policy initiatives should promote and expand the role of community-based organizations as part of a comprehensive approach to addressing the housing crisis. Greater community-based organization involvement has dual benefits: it ensures organized community input and development and eliminates financial incentives for prepayments or conversions. Promoting the involvement of community-based groups in housing requires capacity-building assistance to these organizations to enable them to acquire and retain the resources necessary to implement new housing initiatives.

3. Financial Resources Required

The resources required to carry out the policies and programs recommended while substantial, are clearly within this nation's capacity. Indeed, a somewhat different arrangement of current federal spending for housing, including tax expenditures, would probably suffice.

Since 1980, the trend has been for diminished budget authority to expand low-income housing assistance, increased outlays as additional units have become occupied, and rapidly rising housing-related tax expenditures. An analysis of housing subsidy distribution included in our report indicates the regressive nature of federal housing assistance programs, with far more absolute and per capita housing subsidies going to the very rich than to the poor.

The contrast between subsidy and income distribution was even worse for Hispanics in 1981. At that time, 36% of Hispanic households had incomes below \$10,000 and only 3% had incomes above \$50,000. In fact, 76% of all housing-related tax subsidies in 1981 went to households with incomes over \$30,000, the top 26% of the income distribution. Although this subsidy is widely regarded as essential to middle-income homeowners, in fact only 42% of all owners, and only 36% of Hispanic owners, had incomes above \$30,000 in 1981. The conclusion is inescapable: the homeowner deductions are a subsidy that does not assist even a majority of homeowners, and those most needing assistance, because of their low incomes, receive the least.

B. Policy Recommendations

1. Increase the Supply of Subsidized Housing

A combination of federal policy initiatives are necessary to retain even current levels of subsidized, low-income housing. The National Council of La Raza recommends that:

- Congress should enact legislation that would more than triple the number of assisted units, preserving them for use by low-income families. First priority should be given to those buildings with expiring subsidy contracts.
- Congress should enact legislation providing for major increases in the rehabilitation and new construction of low-income housing.
- Congress should enact legislation to minimize the loss of low-income housing through "prepayments and conversions"; such legislation should include:

- .. Tax incentives to current owners permitting higher rates of return and access to reserves;
- .. Tax disincentives including a special tax on profits accrued through the sale or conversion of subsidized housing; and
- .. A "right of first refusal" to community-based groups for the purchase of such properties.

Pending such action, Congress should place an immediate moratorium on prepayments.

2. Housing Allowances

Given the serious problems of affordability faced by low-income households, and the fact that only a fraction of such households currently receive housing assistance, a major new initiative addressing affordability is critical. The National Council of La Raza recommends that:

Congress consider legislation providing for a Housing Allowance Entitlement Program. Under such a program, all families with incomes below a specified income level -- perhaps 50% of the median -- would receive assistance to bring shelter costs to do no more than 30% of adjusted household income.

3. Homeownership

While increasing the level of homeownership among Hispanics and other low-income groups is a major priority, there are few proven models for accomplishing this objective. Thus, as interim steps, the National Council of La Raza recommends that:

- Congress should enact a series of demonstration programs designed to test models for assisting low-income families become homeowners. These programs should include:
 - .. Limited equity cooperatives;
 - .. Equity sharing arrangements, including Mutual Housing Associations; and
 - .. Lease-purchase plans.
- Congress should enact legislation permitting the use of housing allowances or vouchers for the purchase, as well as rental, of housing.

Senator CRANSTON. Thank you very, very much.

I want to say a particular word of welcome to you, Martha.

STATEMENT OF MARTHA BROWN HICKS, PRESIDENT, SKID ROW DEVELOPMENT CORP., LOS ANGELES, CA

Mrs. HICKS. Thank you. It is delightful to be here again. I was remembering that you and I go back to 1974 when I represented Californians Against the Housing Moratorium. That's how long we've been dealing with the housing issues and I'm delighted to be here not only to represent the Skid Row Development Corp. but as one of your constituents.

The Skid Row Development Corp. is a private nonprofit corporation created to do gap-filling in the Skid Row area. It was recognized that traditional services such as the Salvation Army, Volunteers of America and the missions all do a very fine job. But we realized early on that the missions, for example, only provide a few nights shelter and that missions do not sleep women. In April 1983, the Skid Row Development Corp. opened Transition House, a model shelter for homeless people which in 1986 won the United Nations' "International Year of Shelter for the Homeless" award, given by the U.S. Department of Housing and Urban Development.

We are very proud of the record that Transition House has established in its 5 years of operation. We are actively placing people in jobs, in independent housing and doing our share in providing transitional care for the mentally ill and those recovering from substance abuse in the Skid Row area of Los Angeles.

For example, to us a success story—and we do have a 63 percent success rate—is not just getting a homeless person into a job and an independent living situation, but it may be some person suffering from some form of psychosis and while you and I think we're normal we would have difficulty wading through the maze of the Department of Public Services. Our counselors help get benefits for those people and get them relocated to a board and care facility and to us that's a success story.

Transition House is a model shelter not only because of the statistics which prove our commitment to mainstreaming homeless people, but also because it is a clean, harmonious refuge for those homeless people who have already decided to change their lives.

It is important to note the many and varied profiles that categorize the "homeless" populations. I am sure these categories are not limited to the city of Los Angeles, but I wish to speak specifically about Los Angeles. Skid Row, a 44-block area for which we are responsible comprises the largest concentration of homeless people in Los Angeles County. There are the "homeless mentally ill" who have been deinstitutionalized because they were not a menace to themselves or society. It does not mean they are capable of independent living situations, that they know what resources are available to them, or how to manage those resources. Getting these people relocated to a board and care facility is a success story to us.

Another profile is a person temporarily down on his luck, recently unemployed and looking for temporary assistance to find job placement and an independent living situation either in a newly

renovated Skid Row hotel or an apartment. We have a lot of success stories in helping those people.

There, too, is the recovering substance abuser who, through counseling, rehab programs, alcoholics anonymous, and so forth, is able to stage a comeback. With job-readiness training, many of these people get jobs and move into independent living and suitable housing.

PREDATORS IN THE SKID ROW AREA

Another profile that some seem reluctant to mention is that of the predators, the drug dealers, the hustlers, who prey upon the less fortunate in Skid Row. This is a group which, when offered assistance or refuge in Transition House, will refuse because they don't want to play by the rules. I think we're kidding ourselves when we don't recognize that as a profile because they get an awful lot of attention and it's unfortunate that the media isn't willing to deal with those programs that are really working.

The homeless population of Skid Row is always changing; however, based on the statistics of the first 5 years from April 1983 to April 1988, we have established a demographic profile which you have. We submitted 150 copies of this testimony to Senator Cranston's office. It should have been delivered yesterday and you will be able to take a look at what we're doing in the way of the breakdown of male-female, the status on arrival, the age groups and the ethnic groups.

In its first 5 years, Transition House served 4,523 homeless people in the Skid Row area and that breakdown you have and it's been submitted under separate cover.

Transition House focuses on a medium-term housing opportunity lasting on the average about 5 weeks. It has successfully fulfilled its purpose of giving residents "a new beginning." The 5 years of experience at Transition House have convinced the board of directors and the staff of the corporation that an essential factor in providing for the needy is to provide stability and assure accountability in the services offered. Homeless people are not well served by a dissipation of resources into new programs while established, successful programs lack funds. And that is my problem. The philosophy of the Skid Row Development Corp. is to assure a funding basis for Transition House now and develop new projects only as they become economically feasible.

My urgent plea to legislators today at both the State and Federal levels is to allow some set-aside for existing program operations. Public agencies seem intent upon creating new facilities and funding the development of new shelter beds. We believe it is important to evaluate the effectiveness of existing programs and, when it is determined that they work well, to provide operations assistance. If new facilities are created and existing facilities are shut down for the lack of operating funds, what improvements are we making in the use of public dollars?

Has it occurred to the legislature to consider 3 to 5 years from now how new facilities will operate if only capital money is provided? We believe they will face the same funding problems many of us face today.

We are offering more than promises. We are delivering each day jobs, counseling, beds, food, clothing and we feel that our funding should remain a national priority. We expend great energy each year in renewing grant applications to agencies from which we have received money regularly. While the demand for our services increases and the efficient delivery of the services our clients need becomes more and more important, we are constantly faced with the challenge of living "from hand to mouth" on a year-to-year funding basis. Our successes have been the result of a courageous planning philosophy which has emphasized always continuing as if no impending funding crisis existed. Thus far, we have been fortunate enough to find drastically needed funding, albeit at times at the last minute. A funding process which would assure basic funding to obviously successful programs for a long period of time to encourage better planning would be extremely helpful and assure an even more efficient use of funds.

I appreciate your concern and assistance. You've all been effective in championing the cause of the needy and homeless at the Federal Government level and I look forward to working with you in the future. The important thing is some set-aside. We look at the McKinney money and we've been told the State of California has said the McKinney fund priority is on new beds. What are we going to do about existing programs? If you create 100 beds over here and we shut down a facility for 130 for lack of operations money, you really have not made a dent in the problem. There must be a set-aside at the Federal level to evaluate those programs which work by proof at an effective evaluation mechanism and make sure we stay afloat.

Thank you for this opportunity and I look forward to working with all of you.

[The complete prepared statement of Mrs. Hicks follows:]

Senator CRANSTON. Thank you very much.

Senator Shelby has to be at another committee shortly but there are two constituents of his about to testify and he wanted to say a word for which I now yield to him.

OPENING REMARKS OF SENATOR SHELBY

Senator SHELBY. Mr. Chairman, thank you for letting me do this and I appreciate the panel letting me interrupt. I've got to go to an Armed Services Appropriations conference in just a few minutes and on the third panel coming up behind you I have two people from Alabama, Charles Welden who is here representing the National Leased Housing Association, and also Mr. Jack Godin, who is the president of the Council for Rural Housing and Development. Both of these gentlemen, Mr. Chairman, are well versed in the housing problems of low-income persons. Mr. Godin has developed some 1,400 units of section 23, section 8 and section 15 housing. Mr. Welden is from Birmingham and he heads a Birmingham-based management company which supervises over 9,000 units of section 8 FHA-insured Farmers Home and conventional multifamily projects. I believe they will add something to our testimony here today and I'm sorry I'm not going to be able to be here but Senator Nunn has just called this meeting and I appreciate your indulgence.

Senator CRANSTON. Thank you very much, Senator.

Martha, I thank you very much for your testimony and your steadfastness on working on these issues.

Now we go to Ms. Foscarinis.

STATEMENT OF MARIA FOSCARINIS, WASHINGTON COUNSEL, NATIONAL COALITION FOR THE HOMELESS

Ms. FOSCARINIS. Thank you. I'm sorry to say that I'm here again on behalf of the Nation's 3 million Americans who have no housing at all.

Let's start with the facts. A few weeks ago we published a report surveying 32 cities around the country. In each city we found that homelessness is on the rise. In each city we found that increasing numbers of men, women, but especially children are in need of emergency aid. And in each city we found that even the barest emergency resources are already—at the very beginning of colder weather—being exhausted.

I think the reasons for this are not mysterious. In city after city we again found that the lack of affordable housing was the single most important cause of homelessness. The reason for this is not mysterious either. In the past 7 years, as you know, our Federal funding for housing for the poor has been cut by over 75 percent. I think what we're seeing now is the inevitable result of those policy decisions.

Across the country waiting lists for subsidized housing are years long. What do families do while they wait? Well, they first double up, then they triple up, then they live in their cars. Eventually they end up on the streets and in emergency shelters.

Homelessness obviously creates special needs and special problems in people, but the homeless are not a special population. The

homeless are merely the first victims of a much larger crisis in this country. The homeless are the first victims of the severe shortage of affordable housing. They are the poorest of the poor. They are the ones who got squeezed out first. They are the ones who got squeezed out and got squeezed out onto the street and into the shelters.

HOMELESSNESS IS A NATIONAL CRISIS

What we're talking about is a national crisis. Crises demand speedy action and they demand decisive action. I'm glad that the committee is doing this work. I think it's critical. I'm glad that the committee has identified the need for new housing initiatives and I'm glad that the committee has given priority to those needs and I'm glad that the committee has finally recognized the connection between homelessness and housing.

But I'm troubled by three points in the committee's proposals. First of all, homeless people do not need emergency shelter. They need permanent housing.

Second, they need permanent housing now. Homeless Americans are now on the streets and in the shelters. They cannot wait for a lengthy deliberative process. They need help now.

Third, the underlying causes need to be addressed. There's a huge shortfall of affordable housing in this country and unless that shortfall is addressed, homelessness and its causes cannot be eliminated.

More specifically, on the McKinney Act, the committee proposes extending and expanding the McKinney Act. The McKinney Act was an important bill. It was landmark legislation. It was the first time ever that Congress addressed in any comprehensive way the needs of the homeless. We all worked hard on it. I personally worked very hard on it, but I think it would be a mistake for us to congratulate ourselves on this as a major accomplishment.

The McKinney Act was intended as emergency relief. It was intended to save lives. And it has saved some lives—not enough lives, but it's done some. But I think it would be a mistake and it would be shameful for us to say that saving lives is all that we aspire to now in the United States of America in the 20th century. We have to do more than merely prevent our fellow Americans from dying in the streets.

The McKinney Act has to be reauthorized. It's a necessity. Even Vice President Bush, a member of the administration which has routinely opposed aid to the homeless, believes that Congress should fully fund the act. But it's obviously not enough. It would be shameful I think for us to stop there in our aid to the homeless.

The second point is that there are now existing resources that could be made available quickly to provide housing for those who have no housing at all. Seventy thousand public housing units are vacant because there's no repair money. Properties owned by cities around the country are now vacant, abandoned. Those are buildings that exist now. We need no new commissions and no new studies to make those available. The only thing we need is funding.

I suggest that the committee consider making those resources available for those now on the streets.

4. Role of Community-Based Organizations

Community-based organizations are an essential component of a comprehensive approach to addressing low-income housing problems. The National Council of La Raza recommends that:

- Congress should enact legislation which promotes and expands the role of private, nonprofit, community-based organizations in the planning, development, rehabilitation, construction and management of low-income housing.

V. CONCLUSION

In conclusion, Mr. Chairman, the National Council of La Raza commends you and the Subcommittee for engaging in the lengthy process of developing new, landmark housing legislation. While we are disappointed with the preliminary concept papers, we commend you and the Subcommittee for seeking the opinions of both policy experts and affected constituent groups on your proposals. We hope that we can work closely with the Subcommittee in the future to help shape legislation that would first arrest, then reverse, the growing housing crisis facing Hispanics and other low-income Americans.

September 28, 1988 --- Senate Subcommittee, SD-534

Prepared by Martha Brown Hicks, President

Skid Row Development Corporation

Los Angeles, CA 90013

The Skid Row Development Corporation is a private, non-profit corporation created to do "gap filling" in the Row Area. It was recognized that traditional service providers in Skid Rows nationally, i.e., the Salvation Army, Volunteers of America and the missions, all do a very fine job. We realized early on that the missions provide only a few nights shelter and that missions do not sleep women. In April 1983, the Skid-Row Development Corporation opened Transition House, a model shelter for homeless people, which, in 1986 received the United Nations' "International year of Shelter for the Homeless" award, given by the U.S. Department of Housing and Urban Development.

We are very proud of the record that Transition House has established in its five years of operation. We are actively placing people in jobs, in independent housing and doing our share in providing transitional care for the mentally ill and those recovering from substance abuse in the Skid Row area of Los Angeles. Transition House is a model shelter not only because of the statistics which prove our commitment to mainstreaming homeless people, but also because it is a clean, harmonious refuge for those homeless who have sincerely decided to change their lives.

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Martha Brown Hicks, Skid Row Dev. Corp.

It is important to note the many and varied profiles that categorize the "Homeless" populations. I am sure these categories are not limited to the City of Los Angeles, but I wish to speak specifically about Los Angeles' Skid Row, a 44 block area for which we are responsible and which comprises the largest concentration of homeless people in Los Angeles County. There are the "homeless mentally ill" who have been de-institutionalized because they were not a menace to themselves or society. It does not mean they are capable of independent living situations. In such cases, we have been successful in helping such residents obtain a benefit and get relocated to a board and care facility. This is a success story to us.

Another profile is a person temporarily down on his luck, recently unemployed and looking for temporary assistance to find job placement and an independent living situation either in a newly renovated Skid Row hotel or an apartment.

There too, is the recovering substance abuser who, through counselling, rehab programs, alcoholics anonymous, etc., is able to stage a come-back. With job-readiness training, many of these people get jobs and move into suitable housing.

Another profile that some seem reluctant to mention, is that of the predators, drug dealers, hustlers, who prey upon the less fortunate in Skid Row. This is a group which, when offered assistance or refuge in Transition House will refuse because they won't play by the rules. It is

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impossible to administer a house of 130 people in a dormitory setting without rules. The house is full every night and we have a 63% success rate.

The homeless population of Skid Row is always changing, however, based on the statistics of the first five years from April 1983 to April 1988, we have established a demographic profile. Because of the dormitory style housing, Transition House is limited to serving adults. Its services have an impact on families, however, in that a substantial number of the adults served are parents separated from their children whose return to a stable lifestyle benefits the entire family. In its first five years, Transition House served 4,523 homeless people of the Skid Row area, with the following statistical breakdown.

<u>Total new intakes</u>	4,523
Males	67%
Females	33%
<u>Status on Arrival</u>	
Substance abuse	26%
Medical/psychiatric	16%
Social maladjustment	47%
Homeless/Mission residence	82%
<u>Transition House Age Groups</u>	
18-25	23%
26-35	41%
36-45	22%
46-55	10%
56+	4%

Transition House Profile

Black	62%
White	24%
Hispanic	8%
American Indian	4%
Asian	.07%
Other	1.3%

Transition House focuses on a medium-term housing opportunity lasting on the average about five weeks. It has successfully fulfilled its purpose of giving residents "a new beginning". As in all other endeavors, however, costs at Transition House rise from year to year and funding is the major challenge. The five years of experience at Transition House have convinced the Board of Directors and the staff of the Corporation that an essential factor in providing for the needy of the Skid Row area is to provide stability and assure accountability in the services offered. Homeless people are not well served by a dissipation of resources into new programs while established, successful programs lack funds. The philosophy of the Skid Row Development Corporation is to assure a funding basis for Transition House now and develop new projects only as they become economically feasible.

My urgent plea to legislators at both the state and federal levels is to allow some set-aside for existing program operations. Public agencies seem intent upon creating new facilities and funding the development of new shelter beds. We believe it is important to evaluate the

effectiveness of existing programs and, when it is determined that they work well, to provide operations assistance. If new facilities are created and existing facilities are shut down for the lack of operating funds, what improvements are we making for the use of public dollars?

Has it occurred to the Legislature to consider three to five years from now, how new facilities will operate if only capital money is provided? We believe they will face the same funding problems many of us now face.

We are offering more than promises; we are delivering each day --- jobs, counseling, beds, food, clothing and we feel that our funding should remain a national priority. We expend great energy each year in renewing grant applications to agencies from which we have received money regularly. While the demand for our services increases and the efficient delivery of the services our clients need becomes more and more important, we are constantly faced with the challenge of living "from hand to mouth" on a year to year funding basis. Our successes have been the result of a courageous planning philosophy which has emphasized always continuing as if no impending funding crisis existed. Thus far we have been fortunate enough to find drastically needed funding, albeit, at times, at the last minute. A funding process which would assure basic funding to obviously successful programs for a long enough period of time to encourage better planning would be extremely helpful and assure an even more efficient use of funds.

Thank you again for your concern and assistance. You have been most effective in championing the cause of the needy and homeless at the Federal Government level and I look forward to working with you in the future.

I guess the final point is just this. We know now that there's a very dramatic shortfall in affordable housing around the country. By the year 2000, by the end of this century, it's predicted that there will be a shortfall of 7.5 million units. That shortfall needs to be addressed. Otherwise, homelessness will just continue to increase and the committee's work will be nothing more than another bandaid.

[The complete prepared statement of Ms. Foscarinis follows:]

Senator CRANSTON. Thank you very much. I share those concerns you expressed about the homeless and the need to work as rapidly as we can to cope fully with that problem.

Mr. Banks.

STATEMENT OF STEVEN BANKS, STAFF ATTORNEY, THE HOMELESS FAMILY RIGHTS PROJECT OF THE LEGAL AID SOCIETY, NEW YORK, NY

Mr. BANKS. Thank you. My name is Steven Banks. I'm a staff attorney with the Legal Aid Society's homeless family rights project in New York City.

As Senator D'Amato knows, we have certainly our hands full in New York City with burgeoning numbers of homeless families.

For the past 5½ years the Legal Aid Society has commenced a series of lawsuits which have resulted in State court orders requiring the city to provide emergency housing to homeless families with children and to in fact provide habitable emergency housing to homeless families with children.

Over the past 6 years we have worked with hundreds of individual homeless families by providing hotline assistance and through outreach to hotels and shelters. Through this work we have a vantage point which we think is somewhat unique in understanding the types of problems and the solutions that may be warranted to deal with this crisis.

Tonight, some 5,200 families, including more than 11,000 children are in emergency housing in New York City, but as some of the other panelists have pointed out, this is only the tip of the iceberg. There are tens of thousands of families doubled up who are about to fall through the cracks into the emergency housing system.

The families that are homeless are homeless through no fault of their own. They include families that were burnt out, or they've lost housing because they were battered, or they lost housing because public assistance was erroneously terminated or jobs were lost. But others lost housing or could not find housing because the welfare allowance for a family of four in New York City is only \$312 and not much housing can be rented at that level. In fact, there is no supply of private housing at that rental level and the waiting list for public housing in New York City is 200,000 and some 6,000 units become available in a good year.

Under these circumstances, we can expect this problem to continue and to continue. Media accounts have detailed the conditions that exist in emergency housing, particularly in hotels. Stories of families with food hung from the ceiling to stop the mice from eating it or children urinating in peach cans in their rooms because they're afraid to use public bathrooms down the hallway are really all that need to be referred here. The wretched conditions have become so much a part of our consciousness that we're almost numb to it, but the children living under those conditions are not numb to it. They are being scarred indelibly by these experiences even as we sit here today.

ELIMINATION OF WELFARE HOTELS

Against this backdrop, the suggestion and the proposal to eliminate the use of welfare hotels is certainly a positive step forward. But to set a 5-year period is to condemn thousands more children to continue to languish or be exposed for the first time to conditions in these hotels across the country over the next 5 years. Even New York City, which has some 3,300 families in welfare hotels alone, has been able to propose a plan to phase out their use in a 2-year period.

Now 2 years is far too long as well, but a 2-year national phase-out standard period is far preferable to a 5-year period.

Senator D'AMATO. Do you believe, Mr. Banks, that they're going to achieve that?

Mr. BANKS. With continued oversight from the Congress, pressure in the courts, it's possible to achieve it. But without those two items, they will not achieve it.

And the third critical component—increased funding for housing production.

Senator D'AMATO. Are they making any progress in the reduction of the numbers in the hotels?

Mr. BANKS. Since the announcement before the House committee in August, the numbers at the Martinique have been reduced from 462 families to 425 families and in fact they expect in the next few weeks to reduce it down to 400 families. And if the pressure continues, oversight from the Congress, litigation pressures, and increased funding, it is possible to achieve this. It's possible to achieve a phase-out across the country with the kind of oversight that's been directed at New York City and with increased funding levels.

The critical point, however, is simply not to focus on getting rid of welfare hotels alone. Welfare hotels are in fact not the worst kind of emergency housing to which families are exposed. In New York City for the past five years the city has experimented with the use of barrack-style shelters for families. Barrack-style shelters are facilities where dozens of families—men, women and children, including opposite sex teenagers, infants, adults—sleep together in one room. The spread of disease in these kinds of circumstances and all the other problems which one can imagine are clear.

In fact, shelters for families of this nature in the city have been repeatedly quarantined for measles, chickenpox, endemic diarrhea and other contagion over the past 5 years.

So in recommending the elimination of welfare hotels, it's critical that there be a recommendation to phase out all forms of inadequate emergency housing, particularly barrack-style shelters and welfare hotels.

As all the other panelists have said, the critical piece is money—Federal dollars. I'm sensitive to the notion that there will be a difficult battle to appropriate sufficient moneys. However, failure to appropriate sufficient moneys will result in a lost generation of children across the country who will grow up having been exposed to the types of conditions that I've described and the cost of a well-funded public housing program will ultimately pale in comparison with the social costs resulting from such a generation of children—

social costs in terms of increased medical costs, educational costs, drug rehabilitation, juvenile and criminal justice.

The time to act is now as this committee and the staff clearly recognize, but it is critical that there be sufficient amounts of money.

The last point—and I realize that I've gone over my time here, but I would like to add that in evaluating the types of programs for which monies must be directed, the staff recommendation that programs that work should be built upon is a very important guiding principle, but it's difficult to then understand why the HUD public housing program is not a critical element of the staff's recommendations.

For example, if funds were directly funneled to the New York City Housing Authority by HUD now, additional new units could be produced to substantially reduce the waiting list and to remove families from welfare hotels. The HUD public housing program, conventional public housing, is a program that's worked and ought to be built upon and perhaps in some questioning we can speak a little bit more about our experiences in New York with that program.

Thank you.

[The complete prepared statement of Mr. Banks follows:]

NATIONAL COALITION FOR THE HOMELESS

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Testimony of
Maria Foscarinis,
Washington Counsel,
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Before the
Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing and Urban Affairs
United States Senate
September 28, 1988

My name is Maria Foscarinis; I am Washington Counsel to the National Coalition for the Homeless, a federation of organizations and individuals around the country. Our guiding principles are simple. In a civilized society, all persons should be afforded the basic resources necessary to survive: decent shelter and adequate food.

Earlier this month, we published a report surveying the state of the homeless poor in thirty-two cities across the country. (1) The results, by now predictable, were uniformly bleak: in every part of the country, homelessness is on the increase. (2) Again and again, service providers reported increasing numbers of men, women and -- especially -- children in need of emergency shelter. (3) And again and again, providers reported, as winter approaches, even the basic emergency resources were already exhausted.

Across the country, the road to the streets followed a predictable path. In city after city, working men and women are now unable to stretch paychecks to meet rising rents. Families with children, in need of shelter, are unable to find housing they can afford. Poor mothers on public assistance are forced to choose between the basics: paying the rent and putting food on

1 National Coalition for the Homeless, Precious Resources: Government Housing and the Needs of the Homeless, September, 1988.

2 We found that the numbers of homeless persons had increased by a national average of 25% in the past year alone.

3 Families with children -- now about 40% of the homeless -- are the fastest growing group among the homeless.

the table. While the details vary, the same basic conclusion is repeated across the country: the extreme shortage of affordable housing is now the single most important cause of homelessness in America.

Homelessness in America is -- and should be -- shocking. But it is not mysterious. It is the inevitable result of the policies followed by our government in the past few years. Since 1981, federal housing programs for the poor have been cut by over 75%. (4) At the same time, the private sector continues to destroy inexpensive housing and replace it with luxury apartment and office buildings. In both the public and the private housing markets, poorer Americans are being literally pushed out on to the streets.

Today's homeless poor are the first victims of a severe housing crisis that affects our nation. Homelessness produces special problems, but homeless Americans are not a "special population." They are simply the poorest of the poor, the most visible victims of a much larger problem. For every man, woman, and child now on the street or in the shelters, there are many more -- now doubled or tripled up -- who are just a step away.

Crises demand speedy and serious solutions. The work of this committee is critically important. It is encouraging that the committee has so clearly seen the need for new housing initiatives. It is encouraging that the committee has given priority to creating these initiatives. And it is encouraging that the committee has seen the link between homelessness and housing.

But I am troubled by several points in the committee's proposals. The committee's work, as I see it, is to propose true solutions. But, homeless people do not need more emergency shelters; they need permanent housing. And homeless Americans cannot wait on the streets and in the shelters while new initiatives are thought out; they need relief -- permanent housing -- now. And finally, those now on the brink of homelessness will not be saved from the streets merely by renamed programs, new offices and greater flexibility.

Specifically:

The McKinney Act. The McKinney Act was a landmark bill. It was the first time -- ever -- that Congress provided comprehensive relief to the nation's homeless. But it is, and was intended to be, an emergency measure. We -- and I personally -- worked long and hard to secure its passage. But it would be wrong for us to

4 At the same time, federal housing programs for the well-off -- in the form of tax breaks -- continue to increase.

feel that we have accomplished much. The McKinney Act provided desperately needed emergency aid; it has undoubtable saved some, though not enough, lives. But it is not enough -- in the twentieth century, in the United States of America -- to attempt merely to save our fellow citizens from dying in the streets.

The McKinney Act is necessary. Even Vice President Bush-- a member of an Administration that has routinely opposed federal aid to the homeless -- now supports it. Congress should reauthorize and fully fund the McKinney Act. But Congress should not believe that the McKinney Act is a solution to homelessness.(5)

The Immediate Need for Permanent Housing. Resources now exist that could be used to provide permanent housing for the homeless. Approximately 70,000 federal public housing units across the country now stand vacant because repair funds are not available. Similarly, abandoned, city-owned properties stand vacant in cities across the country. These are resources that exist now; no reports, special commissions or new initiatives are required to make them available to those living on the streets. Only funds are lacking. I suggest that -- while the committee continues its work -- it also seek the funds to make immediately mobilize these resources to house the nation's homeless.(6)

Long Term Needs. Current estimates are that the shortfall in affordable housing nationwide will reach 7.8 million units by the year 2003.(7) Unless this gap is filled, the underlying causes of homelessness will remain unaddressed and the numbers of homeless -- and near homeless -- Americans will continue to grow. Any serious attempt to create a new housing policy must address this basic need. Anything less may address the

5 The Committee proposes to amend the bill by replacing categorical programs with "flexible" grants. In monitoring implementation of the bill, we have routinely encountered instances where states and local governments have failed to distribute or even apply for federal funds.

6 A bill to provide such funds, sponsored by Reps. Bruce Vento (D-MN) and Patricia Saiki (R-MI), is now pending in the House. In addition to these rehabilitative funds, it would provide some funds for Section 8 certificates and rental assistance. For an annual cost of \$2 billion, it would make about 140,000 units each year.

7 Clay, At Risk of Loss: The Endangered Future of Low-Income Housing Resources (1987).

immediate, perhaps political, need to do something about housing. But it will not address the deeper issue and -- ultimately -- it will be a wasted effort.(8)

8 A bill that would fill this shortfall, introduced by Rep. Barney Frank (D-MA) is now pending in the House.



THE LEGAL AID SOCIETY

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TESTIMONY OF THE HOMELESS FAMILY RIGHTS
PROJECT BEFORE THE UNITED STATES SENATE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS --
SEPTEMBER 28, 1988

Submitted by

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TESTIMONY OF THE HOMELESS FAMILY RIGHTS
PROJECT BEFORE THE UNITED STATES SENATE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS --
SEPTEMBER 28, 1988

This testimony is submitted by the Homeless Family Rights Project of The Legal Aid Society.

In view of the urgent immediate need for adequate, permanent housing for homeless families, we welcome this opportunity to review the circumstances which currently confront homeless families with children in New York City. In this testimony, we will describe the dimensions of the continuing crisis experienced by homeless families in welfare hotels and other forms of inadequate emergency housing in New York City, and address the Subcommittee's staff proposals for the provision of temporary and permanent housing for homeless families.

As you may know, The Legal Aid Society has brought litigation over the past 5 1/2 years on behalf of homeless families with children. As a result of one of our lawsuits, McCain v. Koch, a New York State appellate court has determined that the State and City are legally obligated to provide emergency shelter to homeless families with children. Last year, in McCain, the New York State Court of Appeals held that homeless families with children are entitled to safe and sanitary living conditions in welfare hotels in New York City. In addition to McCain and other class action litigation, we have provided individualized legal representation to hundreds of homeless families with children over the past six years. Through our emergency hotline for homeless families and our regular outreach work in hotels and shelters used by the City as emergency housing, we have had a unique vantage point to observe the circumstances which confront homeless families on a day-to-day basis. We also regularly provide back-up support and assistance to advocates throughout New York and in other parts of the country.

DIMENSIONS OF THE PROBLEM

Some 5,200 families -- including more than 11,000 children -- are now receiving emergency housing in New York City each night. The vast majority of these families became homeless as

a result of circumstances beyond their control. They have lost their permanent housing as a result of fires or vacate orders placed because of dangerous housing conditions. Others had to leave their housing because of a lack of essential services such as heat and hot water, or because they had been living in overcrowded and unhealthy conditions, doubled-up with relatives or friends in inadequate permanent housing. Some are battered women or children. Some are families who have lost their housing because employment was lost, or public assistance benefits were erroneously terminated, or a wage earner deserted the family. Others have lost their permanent housing because, without the assistance of counsel, they were improperly evicted. Still others have lost their apartments or have never been able to afford apartments of their own because prevailing rents are higher than the monthly public assistance grant for shelter that is provided in New York City. Indeed, the monthly public assistance shelter grant for a family of four is a mere \$112.00, and there simply is no supply of housing available at this rental rate.

Despite the issuance of Court orders in our litigation and the issuance of State regulations governing the provision of emergency housing, the day-to-day existence of many homeless families and their children continues to be as brutal as that experienced by the original families who sought our assistance six years ago.

Media accounts detail the fact that children and families continue to be placed in transient "welfare" hotels under conditions which are utterly shocking. Without actually seeing the conditions, it is difficult to comprehend that families with children in 1988 in the United States are living amidst such filth and squalor. Conditions in these hotels are reminiscent -- perhaps even worse -- than slum conditions described by Charles Dickens and later by Upton Sinclair. Health risks are as great as or even worse than those found in many developing nations. Despite the clear requirements of State law, families are regularly placed in emergency housing in hotel rooms with inadequate heat and hot water; bathrooms that lack privacy and are frequently inoperable; single rooms with one or two beds, even for families with several children; filthy, vermin-infested mattresses; no pillows, sheets, blankets, or towels; no cribs for infants; windows without guards; and doors with broken locks. Children have no place to do schoolwork. Food is often stored in bags suspended from the ceiling to keep mice from eating it. There are usually no cooking facilities. Chipping, peeling and exposed paint in a number of these hotels contains lead in concentrations substantially greater than the level permitted by

law. These hotels offer little security, and children placed in them are regularly exposed to drug traffic, prostitution, and violent crime. Families often report that their children must urinate in tin cans during the night because parents are fearful of going out of their hotel rooms at night to use "public" bathrooms in the hallways. Other families recount stories of children having to use hallway bathrooms where the walls are bespattered with blood. Drug paraphernalia of transients using these hotels is often strewn about in both bathrooms and "public" hallways.

At some hotels, families are placed for only one or two nights at a time -- forcing them to spend all day at their welfare centers, most of the night at an all-night welfare office to wait for a one-night hotel placement in the early morning hours, and then to repeat that daily process over a period of weeks or even months. Under such circumstances, the education of children, health care, and any semblance of normal family life are completely disrupted.

In the face of such conditions, it is no surprise that the City Department of Health has concluded that between 1982 and 1984 the infant mortality rate in New York City's "welfare hotels" surpassed not only the rates of the City's poorest neighborhoods, but even those of some poor, developing nations. (See The New York Times, June 19, 1986, at B3, col.1.)

The cost of placing families in such inadequate and unlawful conditions is as shocking as the conditions themselves. According to the Mayor's Advisory Task Force Report on the Homeless, the typical costs of housing a family of four in a welfare hotel are \$69.21 per day, or \$25,261.00 per year. Overall, nightly rental rates range from \$53.00 to more than \$100.00. Monthly rental rates for such inadequate conditions at "welfare hotels" can be as much as \$3,000.00 for each family. President Reagan, for example, has noted that the annual costs of providing emergency housing in a "welfare" hotel for a family can be \$37,000.00.

And yet the alternative to the "welfare" hotel system which has been utilized over the past five years -- the use of institutional shelters for homeless families and their children, including families containing children and adults with contagious diseases and special medical needs -- is even more expensive and exposes children and their families to even more deplorable conditions. While the City has committed to cease using such shelters, that commitment will not be implemented until 1992.

At these institutional shelters, men, women and children, including young children and opposite sex teenagers, live and sleep in open rooms. There is absolutely no privacy. Sleep is difficult, if not impossible, with the cries of young children

Senator D'AMATO. Mr. Chairman, unfortunately, I've just been notified that the conference between the House and Senate on Transportation is on the floor and I'm one of the managers of the bill, so I'm going to have to pass. I would like to speak to Mr. Banks and Mr. Zigas, though, and possibly we can pursue several areas later on. I know that Mr. Zigas has been in touch with our staff quite regularly, but I ask our witnesses to excuse me and it's unfortunate that we do have these multiple demands on our time.

I commend you for your testimony. It's obvious that you all feel very strongly that the need for adequate housing production as it relates to particular needs of lower income people is absolutely essential and I concur. The question is, how can we get the present pipeline unclogged and how do we get sufficient resources and how do we galvanize public and political opinion to move in this direction? I know of no greater champion in this area than Senator Cranston, who is continually prodding, urging, cajoling Members of the Congress on both sides, and let me say both Presidential contenders, to make commitments in this very important area.

Thank you, Mr. Chairman.

Senator CRANSTON. Thank you very much, Al.

Mrs. Lewis, we will proceed with your testimony.

STATEMENT OF TERRY LEWIS, PRESIDENT, NATIONAL ASSOCIATION OF HOUSING COOPERATIVES

Ms. LEWIS. Thank you, Senator Cranston. I am Terry Lewis. I'm president of the National Association of Housing Cooperatives. We are a national organization of cooperative home owners and cooperative professionals. We have a membership of about 1 million cooperative households across the country and 550,000 of our cooperative households are in the New York City area, which has the highest concentration of cooperative households in the country.

I've heard some pleas for enormous intervention needs on behalf of the other panelists and I must say that my needs are rather modest in this respect. I want to talk to you about a program that works—cooperative housing.

COOPERATIVE HOUSING

Cooperative housing is a form of home ownership that largely produces very affordable housing. With few exceptions like the Watergate here in Washington, DC, and some Park Ave. cooperatives in New York City, none of whom are my members, cooperative housing is affordable housing. A very large part of my 1.1 million members live in cooperatives that are government involved in some sense. Many of them were built with government-guaranteed loans under section 213 and 221(d)(4). A substantial number are additionally assisted under section 236 and 221(d)(3).

By and large, we provide affordable housing and we provide affordable housing in two ways. The first way is by providing affordable day-to-day maintenance charges. Because cooperatives are owned by the people who live in them, because there is an identity between the members or shareholders of the nonprofit cooperative corporation and the people who reside in the cooperative buildings, there is no incentive whatsoever to charge one penny more to pay

for the mortgage payments, the day-to-day maintenance, and the future repair and rehabilitation than those things actually cost.

Cooperatives by their nature as well provide and look to long-term affordability. They do not make a tradeoff in saving present-day dollars at exorbitant future costs. Cooperative members intend to live in their homes for a goodly period of time and they know that they have no reason to save money now and pay exorbitant amounts later to provide for heating costs when they could put in cheap insulation.

The second way in which cooperatives provide affordable housing is through the cooperative structure that allows for a variety of restrictions or lack of restrictions on the cost of purchasing cooperative shares or memberships. There are many unrestricted, market-rate cooperatives in the country. All of the luxury cooperatives that exist are of this nature. Many affordable cooperatives that exist in areas across the country are of this nature as well.

But cooperatives can provide in their corporate documents for limitations on the resale value of their memberships that make it affordable for new members buying in to become members and residents in an affordable dwelling.

These resale restrictions can be tailored to meet a great many needs. Housing in this country provides savings for retirement, growth in equity, but it also provides the day-to-day need for shelter and a balancing of this need in cooperative form can be accomplished with great specificity and a great amount of variety.

Now in my written testimony I've made four suggestions of the way in which we can fit into your existing proposals.

The first is that cooperatives as nonprofit corporations—are not tax-exempt by the way; we are simply nonprofit and—are wonderful end recipients of prepaid or possible prepayable 221(d)(3) and section 236 rental properties. Tenant-sponsored cooperative conversions of those properties is a terrific way of maintaining them as affordable housing.

Second, because we are not tax-exempt organizations, we have some present-day tax needs that can be addressed in this legislation. I told you that cooperatives have a built-in incentive to save for rehabilitation. Presently, the Internal Revenue Service is trying to tax the savings of cooperatives as if they were separate from the cooperative corporation itself. That is, treat the savings accounts that cooperatives maintain in order to pay for furnace replacement and reroofing in the future as if they were banks and independent enterprises and taxing the income without allowing the corporations to set off the cost of providing housing against these interest dollars. That is inappropriate.

Second, especially in the New York area, low-income cooperatives were set up with commercial space so that the income coming in from the rental of commercial space could be used to reduce the amount of government subsidy, be it State subsidy or federal subsidy in the 236 and 221(d)(3) programs, to provide low-cost housing. Again, the Internal Revenue Service is trying to tax this rental income as if it were separate from the cooperative corporation. This is a situation in which a small tinkering with the tax code can provide a large savings in providing affordable housing.

Third, you have provided wonderful incentives for home ownership and they can be extended to include cooperative home ownership with very little change.

Finally, fourth, you have dealt with specificity in this set of proposals with the debt aspect of investment in housing and you have left by and large the equity investment to tinkering with the tax credit provisions of the Internal Revenue Code or to a later date. Cooperative corporations are terrific equity investors. They have their own incentive to make an equity investment and with far less cost to the Federal Government in terms of tax credit dollars foregone. Cooperative corporations can be encouraged to provide very low-income housing along with the other housing that they provide to their other members.

Thank you very much.

Senator CRANSTON. Thank you.

[The complete prepared statement of Ms. Lewis follows:]

Summary of the Statement of Terry Lewis
President
National Association of Housing Cooperatives
Before the
Subcommittee on Housing and Urban Affairs
of the
Committee on Banking, Housing, and Urban Affairs
United States Senate

I. Introduction

- A. The National Association of Housing Cooperatives -- a nationwide organization of housing cooperators and cooperative professionals.
- B. Cooperative homeownership -- a source of affordable housing.
 - 1. Tenant-sponsored conversion of rental property.
 - 2. Government-guaranteed lending.
 - 3. Government-aided cooperatives.
- C. Cooperative enterprise -- identity between owners and users of corporate assets.
- D. Cooperatives as Affordable Housing
 - 1. Day to day affordability of maintenance charges.
 - 2. Restrictions on resale as a source of continued affordability to target populations.
- E. Utilizing cooperatives to provide affordable housing.
 - 1. Cooperatives as end recipients of 221d3 and 236 rental properties.
 - 2. Extension of homeownership incentives to cooperatives.
 - 3. Reducing tax over-burden on existing cooperatives.
 - 4. Extending tax incentives to encourage the production of low-income cooperative housing.

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Statement of Terry Lewis
President
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Before the
Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing & Urban Affairs
United States Senate

September 28, 1988

Chairman Cranston, Senator D'Amato and Members of the Housing Subcommittee:

I thank you for this opportunity to provide input from the National Association of Housing Cooperatives (NAHC) into the National Affordable Housing Act. Our organization applauds your desire to address the country's pressing need for affordable housing, and appreciates the sensitivity and creativity of the staff proposals which utilize a variety of methods and government incentives to assist in the maintenance and development of the nation's housing stock.

We hope with this testimony to bring housing cooperatives into focus as a perfect source of decent, affordable home ownership, worthy of support and encouragement through the Affordable Housing Act.

The National Association of Housing Cooperatives, whose President I am, is an organization of housing cooperators and cooperative professionals. It represents more than a million cooperative households across the nation, including 550,000 in the New York City area, which has the country's highest single concentration of housing cooperatives. For thirty-seven years, NAHC has provided a forum for training and the exchange of information among housing cooperators, and has served as a spokesperson for cooperative homeowners from diverse geographic, economic and social backgrounds.

With few exceptions, the Watergate here in Washington being notoriously one of them, cooperative housing is affordable housing. In the past, the federal government has recognized this fact and given cooperative housing its support and encouragement.

Most housing cooperatives are owned by middle and low income families. Some are former rental properties converted to cooperative ownership by their tenants. Many cooperatives were newly constructed with government guaranteed loans under Section 213 or Section 221d4 of the National Housing Act of 1934. Some were federally assisted under the Section 221d3 BMIR and Section 236 housing production programs. In some localities (as in New York with its Mitchell-Lama program) cooperatives for low and moderate income families were sponsored and developed using state or local funds. Across the country there are very-low-income cooperative members who are helped by Section 8 of the U.S. Housing Act of 1937.

The very structure of cooperative ownership is a potent force for economic democracy and affordability.

Unlike the outright owner of a single family dwelling or condominium, cooperative residents do not directly own the apartment, townhouse, or detached dwelling they occupy. Coop residents own shares or memberships in non-profit cooperative housing corporations, which in turn own the land and buildings. These shares represent each member's undivided fractional interest in the entire property owned by the cooperative and entitle the member to occupy a particular unit.

In a housing cooperative, as in any cooperative, there is an identity between the shareholder/members of the non-profit corporation and the users of the corporation's assets. The residents of a housing cooperative are the owners of the corporation. The corporation's shareholders are the residents of its lands and buildings.

The shareholders or members in a cooperative are each proportionally responsible for the physical maintenance and cost of operation of the entire building or complex, including all common areas. The corporation collects from each shareholder a monthly charge to cover operating costs (the cost of mortgage payments, taxes, maintenance, etc.). Nowhere is there any incentive to raise monthly housing costs above the minimum level necessary to cover the cooperative's costs. On the other hand, ownership means that the coop members are motivated to carry out preventive maintenance in an effective way, and provide for long term replacement and rehabilitation as part of the cooperative's day to day operation.

In addition to generating affordable housing for current cooperative members, cooperatives are uniquely capable of being structured to generate affordability to new members when a membership is resold. As corporations, cooperatives can place restrictions on membership transfers, including significant restrictions on resale prices.

Cooperatives developed under the Section 221d3 and Section 236 housing programs have resale restrictions that must remain in place for the life of their mortgages. I take pride in pointing out that the source of those restrictions was a founding member of my organization, now its President Emeritus, who foresaw the increase in value of these cooperatives and their memberships, developed a very stringent formula for the restrictions, and convinced FHA that the restrictions should be part of the cooperative structure. His foresight insured that Section 221d3 and Section 236 cooperatives would continue to be affordable to their original target populations.

Cooperatives developed with tax-exempt mortgage revenue bonds must also place restrictions on resale. NAHC and the National Cooperative Business Association worked with Congress to develop workable restrictions for this important program for housing production.

Cooperative resale restrictions can be fine-tuned to both match the needs of various target populations and to balance those needs with the other important goal which home-ownership has been encouraged to serve -- the provision of retirement capital which increasing home equity provides.

Having hopefully convinced you that cooperatives are worthy vehicles for providing affordable housing, NAHC has some specific suggestions of ways that cooperatives can fit into the National Affordable Housing Act.

First, non-profit tenant cooperatives are perhaps the single most productive end recipients of 221d3 and 236 rental projects whose continued ability to provide affordable housing is in question -- either because they are eligible for mortgage-prepayment or because they are otherwise unsaleable as burnt-out tax shelters. Cooperatives have built-in incentives to maintain housing affordability, and they are conscientious stewards of their lands and buildings.

The experiences of the Section 213, 221d3, and 236 mortgage insurance programs are clear indicators that cooperative owners are less likely than rental owners to experience mortgage foreclosure. By way of illustration, the mutual insurance pool of Section 213 cooperatives has generated a premium refund in every year of its existence.

STATEMENT OF TERRY LEWIS

page 3

Second, cooperative homeownership should receive the same support as single family or condominium ownership. Funds from individual retirement or 401K accounts should be equally useable to purchase cooperative shares or memberships as to make down payments on other dwellings. FHA insurance should be as readily available for cooperative share loans as for single-family mortgages.

Third, as an alternative to large-scale federal funding of rehabilitation and tenant-based subsidies, cooperatives can be encouraged to save for their own rehabilitation and reduce the cost of subsidizing low-income tenants if this bill makes it clear that housing cooperatives are not subject to Section 277 of the Internal Revenue Code. NAHC asks you to protect cooperatives from especially onerous taxation in order to preserve them as providers of affordable housing.

With a very small tradeoff in tax dollars, a cooperative's natural incentive to save to meet its future rehabilitation needs can be allowed to operate unimpeded by inequitable tax treatment.

Commercial income from the rental of storefront property and its tax treatment can provide a special incentive for cooperatives to remain affordable by restricting the resale price of their memberships or shares. In New York, for example, mutual redevelopment cooperatives and those subsidized under the Mitchell-Lama program were purposely set up with commercial space to both provide a new location for businesses displaced by redevelopment and generate revenue to reduce the amount of subsidy that would be necessary to keep their housing affordable by low and moderate income families.

Limited equity cooperatives should be allowed to use commercial income to reduce member charges without adverse tax consequences.

Finally, the tax incentives provided to encourage the development of low and moderate income rental housing should be made available to housing cooperatives without necessitating the sale and lease-back of their lands and buildings. Cooperatives are far better stewards of these physical resources and their affordability than tax-motivated outside owners could ever be.

I thank you for the opportunity to share with you the views of the National Association of Housing Cooperatives. We appreciate the support and attention provided by this Subcommittee and its staff in addressing the nation's critical need for affordable housing. We are confident that this you will work to assure cooperatives of an important role in meeting that need.

Senator CRANSTON. The concept papers rest on two convictions. First, that states and localities should design and implement housing programs; second, that housing assistance must come principally from the Federal Government.

Some claim, on the contrary, that housing is a State and local responsibility. They support a block grant as a way to take current Federal funding for what they call "failed" housing programs and turn the funding over to States and localities. For them, a housing block grant is a good transitional device to get the Federal Government eventually all the way out of housing.

We will have to be ready to contend with that view when a new housing policy is being worked on and moving toward enactment for years to come.

I take it each of you believes that strong Federal support of housing is needed. From your experience, what would happen if funding of housing assistance was left solely to State and local government?

HOUSING ASSISTANCE AT THE STATE AND LOCAL LEVEL ONLY

Mr. BANKS. I think the New York experience is a good example of what has happened. In 1981 the funding levels to New York City permitted production of 6,000 units of federally subsidized housing but by 1986 they were producing fewer than 1,000, and now barely a trickle. And during that period of time, the numbers of homeless families sheltered each night have risen from several hundred to over 5,200. I think that the fact, as has been proven over the last 8 years, is that the States and the localities are simply unable to cope with this problem. It's one that needs national leadership and national direction and national funding and it's no longer a question of being able to experiment with the States and localities having the flexibility to do it. They've proven they can't. And to continue to do so is essentially to play roulette with children's futures.

Mrs. HICKS. Mr. Chairman, I'd like to agree with Mr. Banks. It has been my experience in the past 10 years with the corporation that the Federal Government is much easier to deal with.

Transition House that I mentioned was funded originally for \$1.6 million by HUD under an innovative grant which obviously no longer exists under this administration. But I have had experiences at the State, county and the local level and I have found the Federal Government much easier to deal with.

I think if that money goes to the States, the whole maze of bureaucratic nonsense is going to get us bogged down and the delivery of services will just be even further delayed. That has not been my experience working at the Federal level.

Senator CRANSTON. Mr. Zigas.

Mr. ZIGAS. Senator, I think it's exactly the right question to ask because I think that's exactly some of the criticism you will have of the direction that your concept papers talk about in terms of reinvigorating a Federal role.

There are two issues I think, one of which is practical and the other witnesses have described them. I can only support them. We've traveled around the country earlier this year to share with people the findings of the National Housing Task Force and in

State after State we met with advocates who when we described the proposed State role in matching funds just fell out on the floor laughing. I mean, they said, "That's not my State."

We have States which are facing terrible economic circumstances, cannot pay for programs they now have on the books, and it's unrealistic to expect them to step in.

But the second is a more philosophical one. We do not expect State and local governments to bear the burden of making sure people are well fed. We don't expect them to bear the burden of making sure that they have adequate medical care. In fact, all of the proposals that are being discussed this year in Congress point to exactly the opposite direction.

Housing and shelter has got to be elevated to that same level. We have for 50 years maintained that whether you have a decent place to live shouldn't depend on whether you live in State "A" or State "B". It's because you live in the United States of America. And I think that's the philosophical underpinning that underlies these papers that we support fully and we think has to be encouraged over and over again. This is a national issue that has to be addressed at the national level.

Senator CRANSTON. Ms. Lewis.

Ms. LEWIS. I would like to emphasize that there is a substantial development of expertise in the Federal Government that cannot be denied and that does not exist on the State level. That should not be wasted.

Second, as much as I hate to say it, there's a tendency in State and local jurisdictions to hope that the housing crisis will move outside its own jurisdiction to another jurisdiction and that cannot take place at the Federal level.

Senator CRANSTON. Thank you. Mr. Kamasaki.

Mr. KAMASAKI. I would just add that we have some empirical experience with the Small Cities Community Development Block Grant where I think the data generally show two changes. One, is a quantitative change where the amount of small cities CDBG funds allocated to housing were substantially reduced over time; and second, a qualitative change in that they were generally less targeted. In other words, moving away from low-income housing rehabilitation toward middle-income ownership subsidies.

Senator CRANSTON. How would you respond to those who propose that we merge CDBG with Federal housing funds and give States and localities just one big fund of some size flexible grant?

Mr. ZIGAS. I would say to you, Mr. Chairman, that would be the absolute worst thing that this committee could do. The issues of community development and housing are both important and if the outcome of all the years' work is to end up with a super grant that provides discretion at the local level to make these decisions, from our organization's point of view, it will be a failure. They are very distinct. They need to both be increased. The Community Development Block Grant Program has suffered enormous cuts. And housing and community development are closely linked activities.

But it requires a separate Federal commitment to meeting housing needs specifically in order to ensure that they are met and I would urge very strongly not to consider that alternative.

Senator CRANSTON. Unless others of you comment I will assume all of you think that's a bad idea. Without objection, so ordered. [Laughter.]

Some may praise the HOP approach of providing flexible assistance to States and localities but then claim that HOP can be funded without the need for additional funding by diverting funds that are now provided for other low-income housing programs.

DIVERTING FUNDS TO HOP PROGRAM

What's your comment on that notion? Mr. Banks.

Mr. BANKS. When you consider that there's a 75 percent reduction in Federal funding for low-income housing as it is, to think about raiding the limited amount of money that's left for the HOP concept seems to me to be again flying in the face of the principle of taking away from what's worked.

What needs to be done is to direct moneys to what has worked. And as I stated briefly at the end of my comments, HUD public housing has, by and large, been a successful program, despite the mythology that it has not been.

The problem with taking moneys from public housing and putting it into a new structure presents a whole series of start-up problems and bureaucracy issues. In contrast you have a structure right now—and I can't emphasize it enough—that in a place like New York, or Boston or Los Angeles where there are very significant developing homeless problems along the lines of New York's problem, increased moneys to develop more conventional public housing units could very quickly make a difference.

The fact that there's been a federal regulatory change to make additional public housing units, out of the small pot of units that are available now, available to homeless families in hotels in New York City has been a critical piece in New York City being able to say it will get them out of the welfare hotels in a 2-year timeframe.

So these units are available quickly, available much more directly, and to begin to raid the limited amount of money that's already available for them for some other purpose that is untried I think is a mistake.

Ms. FOSCARINIS. I'd like to just add to that briefly two points. One is a point of principle, which is that the problem I don't think is that we haven't come up with the right programs; the problem is that we have taken away all the funds. And so I think it would be a mistake for us to think that what we need to do really is change the type of programs. What we really need to do is increase our funding commitment to programs that exist.

But the second point is one of urgency which applies particularly to the people that I represent. When we're talking about growing numbers of people on the street, that means we don't have time to reinvent the wheel. When we have resources out there, when we have empty buildings, when we have programs that do work that just need more money, I think we need to have a sense of urgency and we need to keep that urgency to help us keep a sense of perspective on this.

Mr. ZIGAS. Mr. Chairman, your question really goes to the heart of my testimony and that of others here, which is that the funda-

continuing through the night. Diarrhea, rashes and colds are the norm, and there is no adequate screening system to protect against disease. Indeed, quarantines at the City's five barracks-style shelters because of outbreaks of measles and chicken pox are regular occurrences.

STAFF PROPOSALS FOR THE PROVISION OF TEMPORARY AND PERMANENT HOUSING FOR HOMELESS FAMILIES

Against this bleak background, staff proposals to eliminate the use of welfare hotels as emergency housing for homeless families is certainly a positive step. However, permitting their use for another five years is far too long a time period for phasing out these wretched facilities. To permit the continued use of welfare hotel placements for another five years will consign thousands of children to continue to endure the brutality of life in these hotels. Even New York City, which currently houses some 1300 families in welfare hotels, has made a commitment to Congress to cease use of welfare hotels within a two year time frame. While even two years is too long to expose children to the horrors of welfare hotel life, a two year national phase out period is preferable to the proposed five year period.

Moreover, the staff proposal focuses on the elimination of welfare hotels as if welfare hotels are the only inadequate form of emergency housing that States and localities use for homeless families with children. As noted earlier, living conditions in barracks-style shelters in New York City are as deplorable as those in welfare hotels. These shelters not only pose a high risk of spread of contagion, but they are even more costly than welfare hotels. In barracks-style shelters such as the Forbell shelter in Brooklyn and the East 151st Street shelter in the Bronx, the City pays approximately \$110.00 each night to shelter a family of four. At the Catherine Street shelter in Manhattan, the City's proposed operational plan for the shelter stated that the annual costs of sheltering each family were \$53,000. In view of these extraordinary costs and the adverse effects on children resulting from placement in these shelters, ending use of barracks style shelters is just as urgent as eliminating use of welfare hotels. After experimenting with their use for the past five years, even New York City has agreed to cease use of barracks-style shelters by 1992. Accordingly, the staff proposals should be revised to mandate the elimination of all forms of inadequate emergency housing for homeless families, including both welfare hotels and barracks-style shelters for families.

Staff proposals for the establishment of housing quality standards, regular federal inspections of living conditions, and certification of rent levels need further clarification. Since

the use of welfare hotels is to be eliminated within a designated time period, establishment of minimum living standards, approved rent levels and other federal enforcement actions must not be viewed as means to extend the use of welfare hotels beyond the phase-out period. Where State and local housing quality standards are more stringent than established federal standards for welfare hotels, conditions in these hotels should be required to meet the higher standard. In addition, the proposed legislation should not only prohibit use of federal funds to house families in facilities which fail to meet minimum standards, but States and localities must be required to bring such facilities into compliance or relocate families housed in such non-compliant facilities to lawful emergency housing.

In order to accomplish the goal of eliminating use of welfare hotels and other forms of inadequate emergency shelter, it is critical to ensure sufficient funding for development of adequate temporary and permanent housing for homeless families. However, not only must welfare hotels be eliminated, but federal standards should also be promulgated to ensure that appropriate temporary housing is developed to replace facilities like welfare hotels. Given the extensive experience in New York City with models for the provision of temporary housing for families, it is clear that apartment-style emergency housing is the most adequate, cost-effective temporary housing option. In contrast to the abysmal conditions at welfare hotels and barracks-style shelters, in apartment-style emergency housing such as the Henry Street Settlement in Manhattan, homeless families are provided with a self-contained living unit, including cooking facilities, a bathroom, and adequate living and sleeping space. As a result of the stabilizing effect of such an adequate environment and the provision of social services, families in such facilities are relocated to permanent housing after substantially shorter periods of time than families languishing in decrepit conditions in welfare hotels or institutional shelters. For example, while the average length of stay at Henry Street is now approximately 4 months, the average length of stay at the Brooklyn Arms Hotel is nearly a year. The per diem rental rate at the Henry Street Settlement is \$49 - \$55 for a family of four, which is less than a third of the cost of providing emergency housing in barracks-style shelters, and significantly less than the per diem rates in welfare hotels. Furthermore, apartment-style facilities are ultimately convertible for use as permanent housing without additional cost, and therefore the development of such facilities contributes to a State's permanent housing resources.

The provision of affordable permanent housing is obviously the ultimate solution to meet the needs of homeless children and their families. Unfortunately, cutbacks in recent years in federal funding for low income housing have been a critical contributing factor to increases in the number of families who are homeless in New York City and elsewhere in the country. Between 1981 and 1987, federal funding for subsidized housing

programs was slashed by almost 70 percent -- from more than 10 billion in 1981 to 8 billion during the last fiscal year. New York City received funding for 6000 new low-and moderate-income housing units in 1981; in 1986, by contrast, the City received funding for fewer than 1000 units. As a result, the waiting list for subsidized housing in New York City has increased from 162,000 in 1981 to over 200,000 in 1987.

The Section 8 housing certificate and voucher programs have not filled the gap caused by these dramatic reductions in federal assistance for housing construction and rehabilitation. In New York City, only 3000 Section 8 housing certificates and vouchers become available each year, of which between 50 and 75 percent are returned unused to the New York City Housing Authority because of the inadequacy of assistance levels. Most of these certificates and vouchers are for single-room or one-bedroom apartments that are inadequate to meet the needs of most homeless families: the current average family size of homeless families in New York City is 3.67 persons. Moreover, since the voucher system relies on families using part of their monthly food allowance to pay for rent in excess of the voucher level, it forces families to make a choice each month between feeding their children and paying the full rent.

While the amount of federal housing assistance has been substantially reduced between 1981 and 1987, the number of homeless families sheltered by the City each night has risen from approximately 800 in 1981 to some 5200 tonight. The number of families in the City's emergency housing system has steadily grown over the past few years largely because families are remaining in the system for longer periods of time because they are unable to locate permanent housing. The average length of stay in the emergency housing system is now approximately twelve months. Families on public assistance are simply unable to obtain subsidized housing or to find private housing that can be rented at the welfare rent allowance level. As noted earlier, even after an increase which took effect on January 1, 1988, the rent allowance for a family of four in New York City is still only \$312.00 per month.

Under these circumstances, without further increased appropriations for permanent housing for low-income families increases in the number of homeless families are inevitable. The National Housing Law Project has already submitted extensive comments to this Subcommittee recommending needed changes to the staff proposals for the provision of permanent housing. Only several points need be reiterated here. First, given the fact that one of the themes of the staff proposals is to "build on what works," it is difficult to understand why the proposals fail to focus on the need to increase funding for the HUD public housing program. HUD public housing provides cost-effective, permanent housing for low-income households. It certainly is a program which has worked and should play a substantial role in

any plan to avert and alleviate homelessness. In New York City, increased funding for new public units would reduce the numbers of homeless families languishing in decrepit welfare hotels.

Second, permanent housing provided to low-income households must be permanently affordable. The Brooke Amendment standard of 25 percent of income, with inflation-adjusted deductions for dependents and medical expenses, is the appropriate standard for ensuring affordability for low-income households, rather than the unadjusted 30 percent standard set forth in the staff proposals. At the same time, the staff proposals should be revised to eliminate allocation of funding for projects with time-limited use restrictions. As demonstrated by the Section 236 and Section 8 programs, use of such restrictions fails to maintain affordable rent levels. Given the increasing numbers of homeless families in need of permanent housing, it is unreasonable to assume that the need for affordable permanent housing will decrease in the future to the point where housing units can be removed from the low-income housing supply.

Third, any permanent housing that is created for low income households must meet basic habitability standards, and sufficient funds must be appropriated to maintain compliance with such standards. The spectre of public housing units being demolished because of lack of maintenance while families remain in welfare hotels and barracks-style shelters is simply shocking.

In the final analysis, there is an urgent need for greatly increased appropriations to create and maintain housing for low-income households. The long-term consequences of not developing sufficient amounts of affordable permanent housing to end the use of welfare hotels and barracks-style shelters will, in the words of Jonathan Kozol, result in the creation of a "diseased, distorted, undereducated and malnourished generation of small children who, without dramatic intervention on a scale for which the nation seems entirely unprepared, will grow into the certainty of unemployable adulthood." See Kozol, Jonathan, Rachel and her Children: Homeless Families in America, (New York: Crown, 1988). In the long run, the social costs of producing a lost generation of children -- which include resulting increased costs for criminal and juvenile justice, medical care, and special educational programs -- are likely to outweigh the cost of providing sufficient amounts of permanent housing to end the crisis of homelessness.

In closing, we welcome this inquiry into the problems of homeless children and their families. Perhaps as a result of these hearings and the recommendations that will result from them, children and their families will no longer be placed in squalid hotel rooms, or in unhealthy, dehumanizing and costly barracks-style shelters.

Thank you for this opportunity to present our views on this most tragic problem.

mental issue confronting advocates and people who provide housing for low-income people in the last 8 years has been that all the resources have disappeared, not that the programs have failed on their own.

If the starting point for discussion of a reordering of programs or a shifting of emphases or adding new wrinkles to the programs we now have—if the premise of that conversation is that we don't increase the money, it is a useless conversation because the fundamental issue now is that with all the diverse kinds of programs we have we are not reaching a fraction of the population that has to be reached.

A conversation about new programs that does not start from the premise that, first, we have to recover the funding ground we've lost and then add to it, and in the course of that we may add additional programs, is not a fruitful or productive conversation.

Senator CRANSTON. Well, thank you very much. You've been very helpful and I appreciate your testimony very much and again, Martha, thank you very much particularly for coming.

We now go to our third and final panel consisting of Henry Schechter, senior economist, AFL-CIO; Moises Loza, Chairman, National Rural Housing Coalition; R.J. Godin, Jr., president, Council for Rural Housing and Development in Montgomery, AL; Charles Welden, Jr., president, National Leased Housing Association, Birmingham, AL; Howard Pals, AIA, architect, Scottsdale, AZ and chairman, housing committee of the American Institute of Architects; and Carol Johnson, trustee of the National Trust for Historic Preservation.

I welcome you all. I want to again remind you of our 5-minute procedure. There will be a green light at the beginning, an amber light when your time is beginning to run out, and a red light when the time has expired. Your entire statement will, of course, appear in the record.

We'll start with you, Henry, and thank you very much for being with us.

STATEMENT OF HENRY B. SCHECHTER, DIRECTOR, OFFICE OF HOUSING AND MONETARY POLICY, AFL-CIO.

Mr. SCHECHTER. Thank you, Mr. Chairman.

Bob Georgine would have liked to be here but, unfortunately, he was delayed out of town and asked me to substitute.

I appreciate the opportunity to present before you the views of the AFL-CIO and its Building and Construction Trades Department on the concept papers for new housing programs under a National Affordable Housing Act.

There are a number of things in the full body of the testimony that I applaud, such as supportive services for housing and many other things, but I want to focus on what I think is the critical matter, and that is funding to provide housing in the most cost-effective way to meet the low-income housing problem.

HOUSING MUST BE COST-EFFECTIVE

The National Low-Income Housing Preservation Commission recommends a Government 15-year, \$17.7 billion program, to induce

owners of properties to retain about 500,000 units of federally subsidized housing in low- and moderate-income occupancy. There is nothing in the proposed legislation or in the concept papers that would prevent a repetition of the current dilemma.

The main proposal would be for what is labeled a private-public partnership to provide for needed low-income housing. The ownership would be private for-profit and nonprofit sponsors, but the subsidy payments to support high enough rents for the amortization of the mortgages which would be federally guaranteed and the return on the capital investment, would be supplied by the Federal Government.

There would be some participation by State and local governments. All increased property values resulting from inflation would accrue to private owners and if, after a given contract term, the government wanted to renew agreements for continued subsidized loans and low-income occupancy of properties whose values increased, it would again have to pay billions of dollars in higher subsidies.

A contrasting element is the provision of low-income housing through the public housing program. In the 1.4 million federally subsidized units owned by public housing authorities, rent subsidies are not being raised to reflect higher property values.

Furthermore, the capital bonds—in effect, the mortgages—have been paid off on some tens of thousands of units which now receive only limited subsidies toward modernization and operating expenses. Public ownership of housing units, like private homeownership, provides insulation against increased payments for housing due to rising property values.

The main thrust of the new legislation for the provision of new affordable housing would come through a HOME corporation which would purchase HOP investment certificates issued by public agencies of States and localities. The corporation would also guarantee payment of principal and interest on securities backed by pools of mortgages on affordable housing.

At the end of the contract term restricting occupancy to low-income tenants, if inflationary increases of rents and property values have occurred, a private for-profit owner could then either demand increased rents or repay the outstanding principal and rent to higher income tenants at higher rents.

There is no minimum share of funds reserved for public housing programs, but there is a limitation of 25 percent of total allocations for public housing authorities. Instead of a limitation, at least 25 percent of allocated funds should be reserved for public housing.

There is no provision for federal construction standards or inspection unless FHA mortgage insurance should be used, and no Davis-Bacon wage standard provision. This could invite a return to the use of Federal funds by developers to offer employment at less than prevailing wages. A Davis-Bacon prevailing wage requirements should be included.

A new form of low-income rental assistance to be called rental credits would replace vouchers and section 8 certificates. The tenant recipients would have to pay 30 percent of their adjusted income level toward rent. This would be a procrustean bed that would cause great hardship for those with very low incomes.

Finally, I want to call attention to the illogical Federal budget system of treating the cost of long-lasting public works and housing as current expenditures the same as payments for fuel to heat this building this year. It is time that we established a capital budget to charge off long-term public improvements over the useful life. That would bring the Federal Government up to date with business and most of the State governments.

Thank you.

[The complete prepared statement of Robert A. Georgine follows:]

STATEMENT OF ROBERT A. GEORGINE
 VICE PRESIDENT, AMERICAN FEDERATION OF LABOR AND
 CONGRESS OF INDUSTRIAL ORGANIZATIONS AND PRESIDENT,
 BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO
 BEFORE THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
 COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
 UNITED STATES SENATE
 ON PROPOSALS FOR THE UPCOMING NATIONAL AFFORDABLE HOUSING ACT

SEPTEMBER 28, 1988

I appreciate the opportunity to appear before you to present the views of the AFL-CIO and its Building and Construction Trades Department on the concept papers that have been prepared for new housing programs under a National Affordable Housing Act. The papers identify the major elements of the widespread housing affordability problem facing the country and propose programs to deal with them.

I would like to comment, first, on two interrelated major elements. One is maintaining the low-income affordability of presently occupied, privately owned, federally assisted rental housing in the most cost-effective manner. That responsibility would be given to a new HUD Office of Affordable Housing Preservation, which would have contractual authority for various relevant functions; but there are no indications of the amount of money that would

have to be committed to a long-term preservation of the properties for low-income occupancy.

Factors which contribute to the problem, and hint at the nature of remedial funding commitments, are listed. They include rising rents, expiration of federal rent contracts, physical and financial needs of many projects, and the ability of some owners to convert their properties to market rate housing.

To make rental housing affordable for low-income occupancy will require a subsidy; and the question is: How great does that subsidy have to be? That question is paramount with respect to rental units presently in low-income occupancy under contracts that will expire over the next 12 years. As hundreds of thousands of units are removed from such restricted occupancy requirements, landlords will have the legal right to raise rents to levels that the market will bear and that presently subsidized tenants will not be able to pay.

The National Housing Preservation Task Force, a building industry oriented group, has estimated that the present inventory of privately owned low- and moderate-income rental housing faces possible reductions approaching 1.2 million units by 1995 and 1.8 million units by the year 2000. It also sets forth "basic precepts" for providing solutions to the problem which include the following: (1) The owner has a

clear contractual right to prepay and to use the property for other purposes, unless prohibited by other contracts. (2) The market value of the project should be a fundamental determinant in the negotiation process to decide the level of action, if any, that should be taken by HUD in endeavoring to persuade the owner to waive prepayment rights and/or to retain the low- and moderate-income character of the project. (3) The difference between the market value and the loan balance should be calculated so as to determine the amount of "locked-in" or imputed equity. This amount should then be used to determine the extent and nature of incentives to be offered to the owner to maintain the project in the low- and moderate-income housing inventory.

Another group that has studied the problem, the National Low-Income Housing Preservation Commission, headed by former HUD Secretary Carla Hills and former House Banking Committee Chairman Henry Reuss, recommends a government 15-year, \$17.7 billion program, which includes inducements to owners of properties to retain about 500,000 units of the privately owned, federally subsidized units in low- and moderate-income occupancy.

Given the established private property rights, there seems to be no solution to the problem of assuring continued affordable occupancy for the many low-income families presently in privately owned, federally subsidized housing,

except to provide many billions of dollars for increased federal subsidy to pay increased going rental rates. And after the new contract term expires, if as history suggests market values of properties will again have risen, the government again would have to pay higher subsidies.

The same subsidy increases would be operative with regard to proposed 5-year rental credits to replace present rental vouchers and certificates.

There is nothing in the proposed legislation that would prevent a larger scale repetition of the current problem of expiring restricted occupancy contracts. With the inflation creep that occurs over a 5-, 10-, or 20-year period, the property values and market rents increase significantly. The main proposal in the new bill would be for what is euphemistically labelled a private/public partnership to provide the needed low-income housing. The ownership would be private; and the subsidy payments, which support high enough rents for the amortization of mortgages and a return on the capital investment, would be supplied by the federal government, with some participation by state and local governments. All the gains from increased value after a given contract term would accrue to the property owners; and if the government wanted to renew agreements for continued subsidized low-income occupancy, it would have to pay billions of dollars in higher subsidies to support higher

market rents that could be obtained by the property owners. It would be a replay under the proposed act of the experience which is coming to a climax in the next few years with over one million units presently occupied under such terms.

Another element that also relates to the provision of low-income housing is not very prominent among the program concepts discussed with regard to the production of additional low-income housing. That is, the public housing program, including Indian housing, with its 1.4 million federally subsidized units owned by local housing authorities. Rents are not being raised to reflect higher property values, which create the need to raise subsidies. Furthermore, the capital bonds, in effect the mortgages, have already been paid off on several hundred such housing projects with a total of over 80,000 units. Many of these projects are receiving annual operating expenses or modernization subsidies, but the average annual subsidy is relatively low, a few hundred dollars per unit per year. The public ownership of housing units, like homeownership for the owner, provides for the government an insulation against increased payments for housing due to rising property values. It also provides low-income housing for relatively low per unit housing expenses for many years after the mortgage has been paid off. It should also be noted that, although the program as a whole has been maligned as a failure because a

few of the 3,252 projects have become drug dealing centers, a recent survey showed waiting lists totalling 800,000 applicants who want to live in public housing projects.

The proposed new act would extend authority for an existing comprehensive improvement assistance program to modernize the nation's present stock of publicly owned low-income housing. However, there would be no authority for funds to be appropriated specifically for use by public housing authorities to construct and own additional new units.

The main thrust of the new legislation for the provision of additional new affordable housing would come through a HOME Corporation within HUD, that would be authorized to administer a Housing Opportunity Partnership (HOP) program to invest in housing strategies designed by states and localities. The corporation would provide funds by purchasing non-amortizing, non-debt "HOP Investment Certificates" issued by public agencies -- of states and localities -- to implement housing strategies. The corporation would also guarantee payment of principal and interest on securities backed by pools of mortgages on affordable housing issued by states and localities, and on securities issued by the corporation. The corporation would also foster development of state and local housing strategies and public-private partnerships.

The HOP Investment Certificates that the HOME Corporation would purchase from states and localities would be so structured as not to be counted as debt of the participating states or local governments. An annual fee would have to be paid to the HOME Corporation for at least five years, not to exceed 10 percent of the government's long-term cost of capital, which means that the fee would be about 1 percent or less per year. The certificates would provide for repayment of principal to the HOME Corporation upon termination of the low-income affordability restrictions on the assisted project. However, the repayment would be from the residual value of the project and would not involve the credit of an issuing state or locality. Incidentally, there is no mention of a specific long term or perpetuity for the restricted low-income occupancy, leaving open the potential for a return, after a limited period, to the dilemma now facing the country and government with respect to currently low-income occupied, privately owned housing, where the contractual restricted occupancy term is soon to expire. If inflationary increases in rents and property values have occurred, the property owner could either demand increased rents or repay the outstanding principal and rent to higher income tenants at higher rents.

Repayment of principal by the states or localities would be waived (at the time of purchase of the HOP Certificates)

if the HOME Corporation finds sufficient assurance that the housing will remain affordable for its full useful life, or a binding commitment has been made that if affordable units are converted to other use they will be replaced with an equal number of affordable units without capital subsidies from the federal government. The states and localities would be responsible for the program design as to the distribution of assistance funds and in maintaining accountability in the use of HOP funds, and, if they cannot assure that the housing can remain affordable for its full useful life, or replace such units, they will be required to repurchase the HOP Investment Certificates.

Thus, there would be several options as to who would owe what to whom at various points in the conception and life of the affordable housing. The back and forth juggling and options of the responsibility for repayment of the capital financing brings to mind a football hidden ball, double reverse play, with increased chances that the ball will be dropped.

The mortgage loans on affordable housing would also be securitized and the HOME Corporation would guarantee the securities to be sold in the market. The risk of project failures and mortgage defaults, thus, would be borne by the federal government. However, there would not have to be a resultant cumulative growth of the federal deficit, if the

Senator CRANSTON. Thank you very, very much.
Mr. Loza.

STATEMENT OF MOISES LOZA, CHAIRMAN, THE NATIONAL RURAL HOUSING COALITION

Mr. LOZA. Thank you, Mr. Chairman.

My name is Moises Loza and I'm chairman of the National Rural Housing Coalition. The Coalition is a national membership organization which lobbies for rural low-income housing and community development.

At the onset, Mr. Chairman, I'd like to commend you and Senator D'Amato for putting housing back on the national agenda. We think it's about time. We are encouraged and we look forward to working with the committee on a National Affordable Housing Act.

First of all, I'd like to put into perspective the situation in rural America. The poverty rate in rural America is higher than in our big cities, 17 percent compared to 13 percent, and has increased by 30 percent since 1979.

Rural employment is growing at half the rate of urban employment and some 1,000 rural counties have jobless rates above 9 percent. Some 7.2 million rural households have significant housing problems. Of these, 4.3 million are families who have incomes below 50 percent of the area median income.

Despite these problems, we've all seen very drastic cuts in programs that were intended to address these very problems.

We believe that the Federal rural housing programs administered by the Farmers Home Administration have been very successful and should be reauthorized. Over 2 million rural families now live in decent housing because of the Farmers Home loans and for most low-income rural people Farmers Home is the only recourse for any kind of housing assistance.

Despite the fact that the Farmers Home assistance goes to economically disadvantaged families, the Rural Housing Insurance Fund is experiencing less than a 1-percent default rate.

We think that in reauthorizing the Farmers Home programs an increase is in order. According to the Congressional Research Service, there is an annual rural shortfall of 75,000 units. With an additional \$1 billion in rural housing loans, an additional 25,000 units could be added to the current production of 53,000 units by the Farmers Home Administration per year.

RENT OVERBURDEN IN RURAL AREAS

Besides the production problem, there is also an increasing rent overburden problem in the rural areas. The number of low-income, nonmetropolitan households with rent overburden grew by 54 percent from 1975 to 1985.

To combat this problem, we suggest that the rural rental assistance program be increased.

Beyond our strong recommendation to continue the Farmers Home programs, we'd like to offer two proposals.

One, to serve very low-income rural underserved areas; and second, one to provide a homeownership opportunity for very low-income families.

required payments pursuant to the guarantees do not exceed the fees collected. Such an assumption with regard to values of residential mortgage can be quite risky, judging from experience of the Federal Savings and Loan Insurance Corporation. The complex financing scheme revolving around the HOME Corporation seems to be designed to get state and local governments involvement in the production of affordable housing.

The latter effect is, of course, inherent in the public housing program. Enactment of state enabling legislation is a prerequisite for the establishment and operation of city and county local housing authorities. (In one state, Alaska, the state has established its own housing authority.) And, the local authorities are, of course, a local governmental entity. However, the housing built under the programs are paid for with appropriated federal funds which are part of the total federal budget that has been running at a deficit, increasing the outstanding federal debt in recent years. Furthermore, since 1986, the public housing program has been financed with capital grants, rather than through sale by local housing authorities of long-term, tax-exempt bonds backed by contractual federal annual payments to cover debt service, so that to build even 5,000 units requires an outlay of close to \$350 million. That is an impractical way of financing a capital good that will be in use for perhaps 60

years. Private rental housing structures are financed with long-term mortgages because the rental income makes it possible to amortize the cost and pay interest over a long term. The same is true of highways and water and sewer facilities, to which the federal government often makes one-time capital contributions, but the state and local governments finance the projects with long-term bonds. Furthermore, the majority of state governments have capital budgets for such expenditures, and thus can more readily keep a balanced budget for their current expenditures. It would be logical for the federal government to use capital budgeting for public housing and other programs that finance long-lasting public facilities. There could then be a larger public housing program. Also, with public ownership, there would be no increased federal subsidy payments required to house low-income people when private property values and rents rose after an initial low-income occupancy period.

In another part of the act, public housing would again be mentioned, this time in the context of housing production. As stated in the description of the prospective bill: "not more than 25 percent of the proceeds of each jurisdiction may be used for publicly owned housing." That limitation is the only discussion of new public housing construction. Thousands of local housing authorities would be cut off from any direct inflow of federal funds for that purpose.

Incidentally, the act would also provide that not less than 10 percent of the proceeds of each jurisdiction is to be reserved for the use of nonprofit organizations that have as one of their major purposes the production or maintenance of affordable housing. There should be greater flexibility to permit larger shares where such housing is needed and can be produced. There is no minimum share reserved for the public housing program which is an established, proven program. Instead of a limitation of 25 percent of total allocations to public housing authorities, a minimum of at least 25 percent of total available funds should be reserved for public housing, with authority for use of those funds where they can be utilized to meet low-income housing needs.

Given the significant subsidy growth problems under private, for-profit ownership of housing for low-income occupancy, that should be only a minor part of the production program, reserved for areas where the other programs cannot meet the needs.

States and localities would be required to match HOP Investment Certificate proceeds on an as yet undetermined percentage basis. The state or local match could be in the form of cash contributions to projects, expenditures from revenues to administer a housing strategy for up to 5 percent of the amount of the required share, and the value of fees that are normally and consistently imposed on housing

construction or rehabilitation but are waived for housing produced with assistance under this act.

The HOME Corporation would be authorized to provide incentives for states and localities to maintain the low-income affordability of the assisted housing for the longest feasible period of time consistent with sound economics. The phrase "consistent with sound economics" is a little puzzling. It may be language to permit a return on the property to the private owners approaching that which could be obtained at its highest rental use as time goes on. That concept doesn't enter into the use of publicly owned housing.

Of the total funds made available by the HOME Corporation each year by appropriations, it is supposed to allocate 80 percent by formula and 20 percent by competition each year. The Secretary of HUD is supposed to establish a formula for allocating to localities that will consider population, income and poverty, the condition of local housing stock, vacancy rates and vacancy duration in affordable rental housing by unit size, overcrowding, fiscal distress of the state and local governments, and an affordability index that compares housing cost to income of moderate- and low-income households.

Fifty percent of the formula funds would be apportioned among localities, and 50 percent among states. The latter would consider statewide housing conditions. The states

would be required to allocate HOP funds geographically according to housing needs in a way to reinforce rather than overlap activities of the locality.

The other 20 percent of total HOP appropriated funds, the non-formula part, would be allocated by national competition to supplement the subscription (allocated) shares of states or localities having exemplary, innovative housing strategies. Consideration would include indicators of project merit, targeting to low-income families in excess of statutory requirements and private leveraging in use of funds.

After a state or locality strategy is approved, the HOME Corporation would make binding commitments to purchase HOP Investment Certificates up to the state's or locality's total subscription share, and the state or locality would agree "to make such commitments to comply with the requirements of federal law as the HOME Corporation determines are necessary." It would seem that the HOME Corporation would have great flexibility in deciding which federal legal requirements have to be met by a state or locality receiving assistance. This would invite hard bargaining by states and localities for exemption from various federal requirements.

It should be noted that there is no provision for federal construction standards or inspection, unless FHA mortgage insurance should be used, and no Davis-Bacon wage

standard provision. This could invite a return of the use of federal funds by the developer to offer employment at less than prevailing wages, driving down wages. It would be turning the clock back more than 50 years. A Davis-Bacon wage standard should be included.

The HOME Corporation would provide a new form of "credit enhancement" by guaranteeing securities backed by pools of mortgages on affordable rental housing. "This method would avoid the need for a large new bureaucracy." HOME Corporation would guarantee payment of principal and interest on mortgage-backed securities issued by state and local governments and that may be issued by the HOME Corporation. This new financing mechanism, thus, would shift the mortgage risk from the loan originator to the states and localities and ultimately to the federal government. This would be a public-private partnership in which the federal government provides subsidies on behalf of occupants, making the marketability of the housing possible; states and localities act as a credit conduit by issuing mortgage-backed securities to be guaranteed by the HOME Corporation with the full faith and credit of the federal government. The federal government, thus, would make a sizeable long-term contribution toward high-level occupancy of the projects built and would bear the full risk attached to the long-term financing of the projects. However, the benefits of

increased property value and a return on investment would accrue to the private developer owners. The latter would also have the right to raise rents after the initial contract period of restricted occupancy to low-income families had expired. Wouldn't the federal government be "giving away the store"?

The National Affordable Housing Act would establish a new form of low-income rental assistance to be called "rental credits," to replace vouchers and Section 8 certificates. It could be provided either as tenant-based or project-based subsidies. The tenant recipients would have to pay an affordable contribution of 30 percent of their adjusted income toward rent. This requirement, regardless of income level, would be a form of procrustean bed that could cause great hardship for those with very low incomes.

Program management fees would be higher in tight housing markets and vice versa.

Contract terms would be for five years. That would allow owners to request higher rents as the subsidy program serves to absorb vacant units from the market and thus raise market rents.

The "rental credit" subsidy payment would be equal to the difference between 30 percent of the tenant's income and a "fair market rent" established for the area. An exception could be made by the state or locality for a tenant who wants

to pay more than 30 percent of income for an apartment renting for more than its established "fair market rent." This would introduce an incentive for the private owners to seek rents above the fair market rents and it would serve to contract the supply of units offered at fair market or lower rents, making it more difficult for eligible "rental credit recipients" to obtain affordable housing. A state or locality approving higher rents for more than 5 percent of rental credits would have to submit a year-end report explaining why, including evidence as to the inadequacy of fair market rents. It is stated that "The Act would thus 'solve problems' noted in a recent study that 48 percent of all voucher recipients have rent burdens above 31 percent of net income and 25 percent have rent burdens above 40 percent of income." The proposed required explanation would not solve the problem, which is basically an inadequate supply of housing at affordable rents for low-income people; and the more vouchers, certificates, or credits that are issued, the tighter will be the supply of housing at "fair market rents"; and rents will rise.

A forgivable loan plan for Section 202 elderly housing projects sounds helpful. However, a requirement that all tenants would have to pay 30 percent of income for rent could create a great hardship for tenants with relatively low incomes.

The proposed act would extend the Mortgage Revenue Bond and Mortgage Credit Certificate programs through 1992. They would continue to be targeted to moderate-income, first-time home buyers and others who have not owned a home within the last three years. Thus millions upon millions of people would be eligible.

Other limitations upon eligibility would limit it to those whose income is no higher than 115 percent of median family income, and the homes eligible for purchase would be limited to those not exceeding 110 percent of the median sales price of homes in the area. In 1987, the median sales price of a new home sold in the United States was \$104,500; 110 percent of the median would raise that to just about \$115,000. Assuming a \$20,000 down payment and a \$90,000, 30-year mortgage at 9 percent, it would require payments of \$724 a month just for principal and interest, with a reasonable estimate of \$270 a month to cover real estate taxes, hazard insurance, heating, and maintenance. It would mean payouts of about \$1,000 a month for monthly housing expenses. One hundred fifteen percent of the 1987 median family income was \$35,480. In other words, people with such incomes could, with the help of mortgage revenue bond financing, encumber themselves with annual housing expenses of \$12,000, equal to more than one-third of their annual income. For families with lower incomes, the maximum housing expenses could be

even higher in relation to income. The home price limitations should be more realistic in relation to affordability by median income families to avoid tempting buyers to make purchases that are likely to lead to problems in the future. That would mean limiting the eligible home prices to a lower level than the median.

The act would also include a proposed relaxation of FHA minimum down payment requirements that would permit a single family mortgage equal to 95 percent of the median sales price of a home within a designated time period for the state and metropolitan area or the county. Taking, again, the 1987 national median sales price of a new home of \$104,500, the mortgage limit would be just about \$100,000, and with the revised minimum down payment would work out to a maximum mortgage of about \$100,000. On a 30-year, 11 percent mortgage, the monthly payments would be \$952 and, after adding taxes and operating expenses, would be about \$14,500 per year. If a family were to devote as much as one-third of its income to housing expenses, it would need to have a \$43,500 a year income. In 1987, about 68 percent of all families did not have that high an income. Maximum loan amounts for FHA-insured loans should be geared to affordability of median income families, not to median new-home prices.

The staff program concepts drafts omits any reference to the Nehemiah moderate-income homeownership program which was enacted in 1987 as a demonstration program with limited federal funding. That program was modeled after two successful local programs. One, sponsored by a local federation of churches in Brooklyn, New York, has built a few hundred units. Another in Boston, sponsored by two AFL-CIO affiliated local unions -- the Bricklayers and the Laborers-- is now into its third project, and its homes are so much in demand that the city has to run lotteries to select the homebuyers. In both instances, there were local land and other contributions. It would be an unwise oversight not to incorporate that program or its major features into the legislation being framed by this subcommittee.

The staff program concept also makes no specific reference to the Farmers Home Administration program that makes possible so much of the affordable housing in rural areas. There would be no substitute. An explicit continuation of that program should be included.

The act would permit states to apply for program loans on behalf of nonprofit sponsors, doing so for all applications for handicapped persons if it chose to do so. Should organizations with extensive, useful experience, who may be better equipped than the state to file an application, be prohibited from doing so?

The requirement for development of a five-year strategy to eliminate the use of welfare hotels is to be applauded. It might be advisable, however, to have the Secretary of HUD share the responsibility with the Secretary of HHS, since an increased supply of low-income housing must be a basic ingredient in such a strategy.

Under the heading of supportive housing, activities are proposed to help more public housing residents become self-supporting. Such efforts are to be welcomed.

While the Farmers Home programs have done a good job in providing assistance to most rural communities, many smaller, poorer, isolated communities, often with high concentrations of substandard housing and minority populations, have been neglected. Many of these communities lack the community infrastructure which make the development of housing very, very difficult.

We would suggest a national program which would target section 502 and section 515 resources, along with funds for capacity building to be used to assist these underserved areas. The Secretary would designate a specified number of counties which would receive capacity building assistance for communities meeting certain criteria. These counties would be selected first on the basis of past lack of service from Farmers Home. Additionally, these areas would be selected on the basis of high incidence of poverty, high incidence of substandard housing, and those with limited populations.

We support the National Housing Task Force proposal to implement a deferred mortgage home ownership program. What we would suggest is a program that would defer mortgage principal payments to the extent necessary to enable very low-income families to meet housing costs within 30 percent of their household income. Consistent with current practice, Farmers Home would review family income on an annual basis. If income goes up, the amount of funds deferred would decrease.

As a recent Housing Assistance Council report indicates, most low-income home owners under the section 502 Home Ownership Program, need less subsidy over time and we would expect this to be the case under a deferred mortgage program.

Farmers Home is presently required to set aside 40 percent of its homeownership funds for very low-income families and this proposal would give them an additional tool to meet that target.

In closing, Mr. Chairman, I would like to make some comments about the concept papers.

We noticed that the papers do not provide a share for new production or rental credit programs for the rural or nonmetropolitan areas. We understand that the staff will soon release a rural housing paper. We look forward to reviewing it. We also understand that you've indicated that the Farmers Home Administration will be continued and will be strengthened and, obviously, that's delightful news as far as we're concerned.

Since the Housing Act of 1974, certain programs of the Department of Housing and Urban Development have been set aside for the rural and nonmetropolitan areas for two reasons. One is that there are households that live outside of the Farmers Home eligible area. If all the assistance from HUD goes to the cities, then there's a large nonmetropolitan area where residents will receive no assistance at all.

Second, about 90 percent of the Farmers Home funds are loan programs. In the past, the Department of Housing and Urban Development would provide section 8 assistance and combine that with rural housing loans to assist very low-income families. As the section 8 assistance has decreased, the assistance to rural areas has also decreased.

As I stated before, there are 4.3 million non-metropolitan households with very low incomes with significant housing problems. This number represents almost 40 percent of the Nation's poor housing. The need to supplement Farmers Home programs in terms of the areas served and the assistance provided is not a new policy and there is certainly ample justification to continue this.

Thank you very much, Mr. Chairman.

Senator CRANSTON. Thank you.

[The complete prepared statement of Mr. Loza follows:]

Senator CRANSTON. Mr. Godin.

STATEMENT OF R.J. GODIN, JR., PRESIDENT, COUNCIL FOR RURAL HOUSING AND DEVELOPMENT, MONTGOMERY, AL

Mr. GODIN. Mr. Chairman, my name is Jack Godin. I'm a partner in Southern Development Co., Montgomery, AL, and I'm pleased to appear before the committee today in my capacity as president of the Council for Rural Housing and Development.

Mr. Chairman, we greatly appreciate the opportunity you and Senator D'Amato have given us to participate from the very beginning of the development of the National Affordable Housing Act.

Last October, we were pleased to provide your task force, chaired by James Rouse and David Maxwell, with our thoughts on the new housing policy framework. We emphasized that rural and urban housing programs should be kept separate and that the FmHA section 515 program should be retained and improved.

The staff concept papers on the National Affordable Housing Act make no reference to the section 515 program or rural housing. We applaud this omission on the assumption that you agree that no substantive changes need to be made in the rural programs and that, in particular, rural housing needs are not appropriately met through the block grant program embodied in the Housing Opportunity Partnership—HOME concept.

And, Senator Cranston, let me deviate here just a minute to tell you how delighted our organization is to the comments you just made which confirms that assumption. Thank you very much.

BLOCKS GRANT PROGRAM IS NOT APPROPRIATE IN RURAL AREAS

While a block grant program may be appropriate for urban areas, it would not be an effective mechanism for providing housing in rural areas. The success of a block grant program rests on existing government agencies to administer the program. Rural localities do not have the professional staff, knowledge, or expertise necessary to administer complex housing programs. Many rural areas would be incapable of even completing the required application. Furthermore, a block grant program, if it were to involve an allocation formula similar to any of those currently in effect, would not provide small rural communities with meaningful allocations. The amount of money available would not be sufficient to provide any significant new construction of housing. In short, block grants would not work in rural communities because local communities do not have the capability to administer the resources and because such a program would not provide resources in sufficient amounts to small communities to get any housing built.

The housing needs of rural America are much different than those of urban America. Very low incomes, reduced service availability, and a dearth of existing housing stock in rural areas impelled Congress in 1963 to adopt the section 515 program. This loan program has been extremely effective in providing decent, safe and affordable rental housing in rural areas. It has an extremely low default rate of less than 1 percent, and now provides over 370,000 units of housing to over 750,000 families, elderly and handicapped

citizens across the United States at a construction cost which averaged less than \$30,000 per unit in 1987.

In fact, the General Accounting Office in 1987 released a report which substantiates the success of the section 515 program in serving the needs of very low-income households. GAO reported that the program is benefiting mostly very low-income households in rural areas; almost half of the households contacted by GAO paid reduced rents after moving into section 515 apartments; and of the three rural housing programs analyzed—section 515, the section 502 homeownership program and housing vouchers—the section 515 program was found to be the least expensive way to serve very low-income tenants.

Because of acute differences between rural and urban housing needs, CRHD believes that the rural and urban housing programs should remain separate. The Farmers Home Administration provides an excellent existing structure for delivery of housing to rural America. We would be vehemently opposed to replacing FmHA with an alternative housing agency or moving the responsibility for FmHA housing programs to the Department of Housing and Urban Development who would be administering the block grant program. "Urban" is HUD's middle name, while FmHA is a tradition in rural communities. Its delivery system and field offices reach deep into the community, an important element in developing and maintaining very small projects in remote areas.

The section 515 program has been cut almost in half since 1984. Despite that, and despite the dramatic changes in the tax code, the program has continued to efficiently and economically provide much needed housing. We would hope that the funding levels for the new construction loan program and rental assistance program would be maintained at least at current levels.

In conclusion, let me repeat, that for rural America, the Farmers Home Administration is the right agency and section 515 is the right program. Block grants will not fill the bill for rural America.

Accordingly, the National Affordable Housing Act should reauthorize the programs established in title V of the Housing Act of 1949.

We greatly appreciate the opportunity to testify before you today and look forward to the introduction of the National Affordable Housing Act next year.

I would be happy to answer any questions.

[The complete prepared statement of Mr. Godin follows:]

Statement of
Moises Loza, Chairman
National Rural Housing Coalition

Mr. Chairman, my name is Moises Loza and I am Chairman of the National Rural Housing Coalition. NRHC is the only national membership organization lobbying on low-income rural housing and community development needs. We have testified before this Committee many times in the past and appreciate the opportunity to appear before you today.

At the onset, we would like to commend your efforts, and those of Senator D'Amato, to place housing back on the nation's agenda. After seven years of budget cuts and neglect of low income housing needs, we are all cheered by your efforts and look forward to working with the Committee on the National Affordable Housing Act.

Poverty and Rural Housing Need

Before providing the Committee with any recommendations, I would like to briefly discuss the depth and nature of the housing problem serving low-income rural households.

During the last few years, there has been a fair amount of discussion about a 'bi-coastal' economy. States located on the two coasts have shared in the nation's economy, while those in the middle of our country have lost jobs, population and, in many cases, hope.

This bi-coastal economy is reflected in the economic data available in rural America.

- The poverty rate in Rural America is higher than in our big cities -- 17% vs. 13% - and has increased by 30% since 1979;
- Rural employment is growing at half the rate of urban employment and some 1000 rural counties have jobless rates above 9%;
- Some 7.2 million rural households have significant housing problems: 4.3 million of these also have very low incomes (below 50% of area median); and
- 97% of all rural Americans depend on untreated ground water for drinking water, yet contamination such as nitrates, pesticides and heavy metals have been found in rural drinking water wells throughout the country.

In the face of this, the last three Administration budgets have proposed the termination of rural housing programs. While

these proposals have not been approved, funding is down by 50% since 1981.

FmHA Housing: A Success Story

We believe that the federal rural housing programs administered by the Farmers Home Administration (FmHA) have been a great success and should be reauthorized.

Over 2 million rural families now live in decent housing, because of FmHA loans for home ownership and rental housing, grants for self help housing, home repair and farmworker housing and rental assistance. For most low-income rural people, FmHA's programs represent the only available housing recourse.

FmHA loans for housing go to economically disadvantaged households. Many have incomes at or below the poverty line. Yet the default rate on the Rural Housing Insurance Fund (RHIF) is less than 1% and the 90 day delinquency rate on single-family loans is about 2%.

In authorizing the FmHA programs we recommend an increase. According to the Congressional Research Service, there is an annual rural shortfall of 75,000 units. To help meet a small part of the shortfall and address low-income needs, we suggest an additional one billion dollars in rural housing loans be authorized and that these funds be equally divided between home ownership and rental housing. This will add about 25,000 units to FmHA's production which currently stands at about 53,000 units. The total of 78,000 units is still far below that of FmHA's peak production years in the late 1970's.

Beyond the incidence of substandard housing, there is an increasing rent overburden problem in rural areas. In fact, affordability is the fastest growing problem in nonmetro areas. The number of low-income nonmetro households with rent overburden grew by 54% from 1975 to 1985. Of this number, 80% had incomes below 50% of the area median. Some 1.4 million very low income nonmetro renters live in the FmHA service area. Of this number, 90,000 live in FmHA Section 515 units without rental assistance.

To combat this problem, we suggest that rural rental assistance be increased fourfold. This will provide approximately 80,000 units, which can be used for renewals of existing, expiring contracts (15,000) and new construction (30,000) with the remaining units going to assist families in Section 515 projects with rent overburden. After this, we suggest that FmHA make rental assistance available to very low-income families experiencing rent overburden in private housing which is standard. This last suggestion will require a change in current law.

Beyond our strong recommendation to continue current FmHA programs, we have two new proposals to make:

1. Service to Underserved Areas

In order to serve remote rural areas which have little or no FmHA rural housing, we propose that funds from Section 515 and 502 be set aside for a special emphasis program to ensure that all rural areas have some low-income housing. And, in order to ensure that participation of isolated low-income and minority communities will increase over time, we propose a capacity building grant program for rural areas which have been historically underserved by Farmers Home Administration (FmHA).

The purpose of the program will be to provide assistance to small (with fewer than 5,500 residents) isolated communities with high concentrations of poverty, substandard housing or minority populations.

While FmHA programs have done a good job in providing assistance to most rural communities, many smaller, poorer areas, isolated from population centers -- often with high concentration of substandard housing and minority populations -- have little in the way of standard housing and, for these, FmHA has not significantly provided housing resources. These areas usually lack the community infrastructure -- in terms of central water or sewer facilities in nonprofit or for-profit capacity -- to develop housing. As a result, they are ignored by FmHA at the local and state level.

For example, in the state of Alabama, factors of race and remoteness seem to explain why some places are not served by the FmHA rental program. For example, most residents in Bullock, Dallas and Hale Counties are black and rural, but there are no Section 515 projects in these counties. Lowndes, Greene, Wilcox and Perry Counties are known nationally for their poverty and substandard housing, but each has only one Section 515 project. A pattern of racial discrimination is further evidenced by the fact that in 1985 the State had 70 Section 515 projects with no black residents and 45 more where fewer than 10 percent of the residents were black.

Statistics such as these cry out for a solution, especially when viewed in a larger context: In the U.S. 24% of black, rural households have no or incomplete bathrooms contrasted to 4% of the white households. Almost all of those black, rural households are in the South. In Alabama, 33% of black, rural households have no or incomplete bathrooms. In 1979, 72% of the poor black households renting houses in rural Alabama occupied substandard housing. This compares with 26% of poor white

renters in rural Alabama.

To remedy this situation, a national program should be established which will target Section 502 and 515 resources, along with grant funds for capacity-building, to be used to assist underserved communities.

Under this program, the Secretary will designate a specified number of counties (10-50) which will receive capacity-building grants to assist communities meeting the criteria below. These counties will be selected, first, on the basis of past lack of service from FmHA. Other factors to be used in selection will include:

- high incidence of poverty (county median income cannot exceed 25% of poverty line);
- high incidence of substandard housing; and
- population (less than 5,500).

For states in which the data indicate that minorities are disproportionately underserved, another factor will be:

- high concentration of minorities (minority population equal to or greater than statewide nonmetro average).

These capacity-building grants will be used to prepare applicants for housing and, in some cases, infrastructure related to housing. These grantees will be permitted to draw on the national set-aside to ensure speedy processing.

2. Deferred Mortgage Section 502

We support the National Housing Task Force proposal to implement a deferred mortgage home ownership program. Under our proposal the federal government would defer mortgage principal payments to the extent necessary to enable very low-income families to meet housing costs within 30% of household income.

Consistent with current practice, FmHA would review family income on an annual basis. If income goes up the amount of funds deferred will be decreased. As a recent Housing Assistance Council report has indicated, most low-income homeowners under Section 502 need less subsidy over time and we expect this to be the case under the deferred mortgage program.

Rental housing is simply not available in some rural areas. For the very small town, rental housing is not a dominant factor in the housing market. For very low-income people there must be another vehicle to obtain a decent, affordable home.

We support the concept of very low-income homeownership and the provision in current law which sets aside 40% of Section 502 funds for this purpose. However, although performance improved this year, since the establishment of this provision in 1983, FmHA has not spent all the very low-income funds available. The deferred mortgage program will give FmHA another tool which is so important to assisting those in need.

Needs of Special Groups

Groups such as migrant farmworkers and Native Americans should be placed in a "Special Needs" category so that programs of housing assistance can be designed to meet their specific needs.

The men, women and children who harvest our crops work as hard at their livelihood as any other group and yet most of them must endure shameful housing conditions. Furthermore, when these workers reach retirement age, become disabled or are no longer able to work, they have limited or no means to find affordable and decent housing.

Indian families on reservations compete with migrant workers for the dubious honor of being the worst-housed group in the nation.

There must be a federal commitment to adequately house these families. We have submitted some ideas to the subcommittee staff that we hope will receive your careful consideration.

Staff Concept Papers

We have reviewed with great interest the staff concept papers on the National Affordable Housing Act. We would like to make a few suggestions in this regard.

As outlined in the paper, The National Affordable Housing Act does not provide a fair share set-aside for new production or rental credit programs for rural or nonmetro areas. We understand that the staff will soon release a rural housing paper and we look forward to reviewing it.

Since the Housing and Community Development Act of 1974, funds for certain housing and community development programs administered by the Department of Housing and Urban Development (HUD) have been used to supplement FmHA housing programs. This statutory set-aside of between 25-30% has been necessary for two reasons. First, households residing in areas which are non-metropolitan but also urbanized are not eligible for FmHA housing programs. If HUD assistance were limited to big cities, these families would be entirely without any federal housing assistance.

This supplement is also necessary because of the nature of available FmHA assistance. Some 90% of FmHA funds provided to rural housing programs is in the form of subsidized construction loans. In the past, in order to provide rental housing assistance to very low income families, HUD Section 8 funds have been utilized with Section 515 rural rental housing loans. With the demise of the Section 8 new construction program, the percentage of HUD funds for rental assistance has fallen to about 18%.

We have already noted that the lack of rental assistance for nonmetro areas is a growing problem. Nonmetro areas severely need the rental assistance that will be provided through the proposed rental credit program.

On the other hand, there are some 4.3 million nonmetro very low-income households with housing problems; this number represents almost 40% of the nation's poor housing. The need to supplement FmHA programs in terms of the areas served and the assistance provided is not a new policy and there is certainly ample justification for its continuation.

The staff concept paper notes that HOP funds may be used on a statewide basis and, presumably, this may provide a vehicle for assistance in rural areas. As the Committee develops legislative language, we suggest that criteria be developed for use by the states in providing assistance. These criteria should ensure that assistance go to those areas with the highest incidence of poverty and substandard housing.

Again, Mr. Chairman, we are encouraged by your efforts and those of Senator D'Amato.

Thank you for this opportunity and we look forward to working with the subcommittee to address the housing needs of rural low-income people.



STATEMENT OF R. J. GODIN, JR., PRESIDENT
COUNCIL FOR RURAL HOUSING AND DEVELOPMENT
BEFORE THE SENATE BANKING, HOUSING, AND URBAN AFFAIRS COMMITTEE

SEPTEMBER 28, 1988

Mr. Chairman and members of the Subcommittee, my name is R. J. Godin, Jr. I am a Partner in the Southern Development Company in Montgomery, Alabama, and I am pleased to appear before you today in my capacity as President of the Council for Rural Housing and Development.

By way of background, CRHD is a national association of over 275 member organizations, including 15 affiliated state associations, of individuals involved in the construction, management, and all phases of the Section 515 rural rental housing program which is administered by the Farmers Home Administration. The Section 515 program has proven enormously successful since its inception in 1961 and CRHD members are all proud to be affiliated with such an effective program that has benefited hundreds of thousands of low-income, elderly and handicapped rural Americans.

Mr. Chairman, we greatly appreciate the opportunity you and Senator D'Amato have given us to participate, from the very beginning, in the development of the National Affordable Housing Act. Last October, we were pleased to provide your task force, chaired by James Rouse and David Maxwell with our thoughts on the new housing policy framework. Our paper outlined the continued need for low income rental housing in rural America and firmly stated that those needs are being well served by the Section 515 program of the Farmers Home Administration. We emphasized that rural and urban housing programs should be kept separate and that the FMA Section 515 program should be retained and improved.

The staff concept papers on the National Affordable Housing Act make no reference to the Section 515 program or rural housing. We applaud this omission on the assumption that you agree that no substantive changes need to be made in the rural programs and that in particular, rural housing needs are not appropriately met through the block grant program embodied in the Housing Opportunity Partnership - HOME concept.

BLOCK GRANTS ARE INAPPROPRIATE FOR RURAL HOUSING

While a block grant program may be appropriate for urban areas, it would not be an effective mechanism for providing housing in rural areas. The success of a block grant program rests on having government agencies to administer the program. Rural communities do not have the professional staff, knowledge, or expertise necessary to administer complex housing programs. Many rural areas would be incapable of even completing the required application. Furthermore, a block grant program, if it were to involve an allocation formula similar to any of those currently in effect, would not provide small rural communities with meaningful allocations. The amount of money available would not be sufficient to provide any significant new construction of housing. In short, block grants would not work in rural communities because local communities do not have the capability to administer the resources and because such a program would not provide resources in sufficient amounts to small communities to get any housing built.

THE NEEDS OF RURAL AMERICA ARE WELL SERVED BY FMHA

The housing needs of rural America are much different from those of urban America. Very low incomes, reduced service availability, and a dearth of existing housing stock in rural areas impelled Congress in 1961 to adopt the Section 515 program. This loan program has been extremely effective in providing decent, safe and affordable rental housing in rural areas. It has an extremely low default rate of less than one percent, and now provides over 370,000 units of housing to over 750,000 family, elderly, and handicapped citizens across the U.S. at a construction cost which averaged less than \$10,000 per unit in 1987.

In fact, the General Accounting Office (GAO) in 1987 released a report ("Rural Rental Housing: Cost Information on FMHA's Section 515 Program and Other Rural Housing Options") which substantiates the success of the Section 515 program in serving the needs of very-low income households. GAO reported that the program is benefitting mostly very low income households in rural areas; almost half of the households contacted by GAO paid reduced rents after moving into Section 515 apartments; and of three rural housing programs analyzed - Section 515, the Section 502 homeownership program and housing vouchers - Section 515 was found to be the least expensive way to serve very low income tenants.

The success of the Section 515 program can be greatly attributed to the unique servicing provided by the Farmers Home Administration which extends directly to the community in which a low income housing project is located. Indeed, the FMHA employee who sends the initial application forms to the prospective borrower is the same person who will drive by the site every day

Senator CRANSTON. Thank you very much.
Mr. Pals.

**STATEMENT OF HOWARD G. PALS, AMERICAN INSTITUTE OF
ARCHITECTS**

Mr. PALS. Thank you, Mr. Chairman.

My name is Howard Pals. I'm a member of the American Institute of Architects and it's a privilege to serve as the chairman of the housing committee of the AIA.

The AIA is grateful for the opportunity to appear today and we appreciate your leadership along with that of Senator D'Amato in sparking the growing discussion on housing policy.

I'll summarize my statement and submit the full statement for the record.

Mr. PALS. For almost three generations, the AIA has urged national attention to affordable housing and wholesome communities. The AIA identifies with the remarks made previously about the depth of the housing needs and we would like to focus our remarks on the proposal before us.

The proposed National Affordable Housing Act is the centerpiece of a vitally important reassessment of this Nation's approach to housing needs. This reassessment occurs in the context of a menacing budget deficit, emerging strengths of States and localities in meeting housing needs and declining housing opportunity for many Americans.

The time has come to sharpen our homeownership tools and develop new ones. The AIA strongly supports proposed increases in FHA mortgage limits to reflect conditions in high-cost areas.

We also support lower downpayment requirements because of the barriers that downpayment demands impose on young and first-time home buyers.

The proposed HOME corporation is a creative and provocative concept and attempts to walk the fine line between a block grant approach and a government-sponsored financial institution. Its complexity compared to block grants may make its implementation difficult.

It is unclear whether the new corporation will supplant existing programs. Its relationship to Ginnie Mae and FHA is not defined. Provisions limiting funding for acquisitions are too restrictive and we would like to see a closer connection between the proposed HOME corporation and the community development programs in the interest of well-planned communities.

We support the rental credit concept along with its proposed alternative fair market rent system, its rent-income ratio ceiling and its income eligibility criteria. We doubt, however, that its short-term contract will encourage new production of low-income housing.

The proposed legislation properly recognizes that specialized housing must form an integral element of a comprehensive housing program. We are particularly pleased with the proposal's sensitivity to the significance of good design in the success of such housing.

CONCERNS ABOUT CONCEPT PAPERS

The concept papers, however, raise several concerns. It is unclear how the proposal relates to the highly successful congregate housing services program. The proposed program does not appear to expand resources either for services or for building retrofit. While retrofit funds could be obtained from existing sources, a new block grant, or the HOME corporation, filling social services gaps would be difficult. The CHSP fills such gaps while the staff concept paper envisions that states or localities would do so.

The proposed legislation reforms the section 202 housing loan program to end the double counting of the program's costs and free up budget authority for supportive housing programs. The new proposal closely resembles the funding mechanism for public housing. Unless the Federal Government faithfully pays the operating deficit according to a realistic formula, it risks replicating for private, nonprofit sponsors the unhappy experience of some public housing authorities.

The AIA would like to take this opportunity to note that HUD's cost containment rules for section 202 projects can so constrain design as to compromise the program. For example, HUD's restrictions on central dining facilities, elevators in two-story buildings, or other amenities severely burden the program. In this program and others, the Federal Government should set a high standard of design. Close attention to design lowers life cycle costs, ensures that buildings match their settings and generates public confidence in Federal housing efforts.

The AIA generally supports the proposals for the handicapped housing loan fund. We are most concerned, however, that the proposal appears to establish handicapped access standards that conflict with the new fair housing law which we believe should not be disturbed.

The AIA supports the incorporation of the McKinney Homeless Assistance Program into comprehensive housing legislation. The AIA has had substantial experience with homelessness through our Search For Shelter Program and we can testify to the fact that homelessness is growing.

Finally, I'd like to mention a few additional issues bearing directly on housing affordability: The qualification-based selection of architectural and engineering services as contained in Pub. L. 92-592, the Brooks Act, and the second issue concerns building codes. We believe that the proposed legislation should encourage the adoption of uniform building codes within States or substate regions based on one of the model building codes. And closely related to building codes and housing affordability is the Federal role in buildings research. By supporting basic research into building components and materials, in partnership with private enterprise, the Federal Government can significantly enhance the production of quality housing at an affordable cost.

Finally, we wish to emphasize the critical role of tax incentives in affordable housing. Tax and housing policy must be coordinated and the proposal to that effect in the Dodd-D'Amato legislation is a worthy attempt to provide for it.

Mr. Chairman, I've run over my time. I apologize for that. This concludes my summary and I'm happy to answer any questions.
[The complete prepared statement of Mr. Pals follows:]

on his/her way to work, supervise the admittance of the first tenants, and notice when the lawn has not been cut or the garbage collected.

Because of the acute differences between rural and urban housing needs, RHD believes the rural and urban housing programs should remain separate. The Farmers Home Administration provides an excellent existing structure for delivery of housing to rural America. We would be vehemently opposed to replacing FmHA with an alternative housing agency or moving the responsibility for FmHA housing programs to the Department of Housing and Urban Development (HUD) administering the block grant program. "Urban" is HUD's middle name, while FmHA is a tradition in rural communities. Its delivery system and field offices reach deep into the community, an important element in developing and maintaining very small projects in remote locations.

INCREASE FUNDING

The Section 515 program has been cut almost in half since 1984. Despite that, and despite the dramatic changes in the tax code, the program has continued to efficiently and economically provide much needed housing. Nevertheless, a recent report from the Congressional Research Service stated that rural America is suffering a 75,000 unit annual shortfall between housing production and housing need. We would hope that the funding levels for the new construction loan program and the rental assistance program would be increased to allow for additional units to be developed and subsidized in FY 89 so as to reduce this shortfall. We do not wish to appear greedy in these times of continued budget deficits, however, we are obliged to state that we could easily justify an increase for this valuable program.

Recent tax law changes have heightened the need for rental assistance. This important corollary to the rural rental housing program provides deep subsidies to eligible tenants, making up the difference between 30% of income and basic rents. In order to qualify for the low income housing tax credit, developers are restricted to charging rents equal to 30% of 60% or 50% of the area median income or non metro income. Often, these rents are not high enough to cover the basic rent calculated on a 1% mortgage rate. In such cases, the availability of rental assistance becomes critical. Furthermore, expiring rental assistance contracts and servicing rental assistance for troubled projects is more important than ever. Many "troubled" projects experiencing financial difficulties because of changing market conditions or vacancies could be saved by rental assistance. We hope the Committee sees fit to recommend additional funding for this important program next year.

CONCLUSION

In conclusion, let me repeat that, for rural America, the Farmers Home Administration is the right agency and Section 515 is the right program. Block grants will not fill the bill for rural America.

Accordingly, the National Affordable Housing Act should reauthorize the programs established in Title V of the Housing Act of 1949.

We greatly appreciate the opportunity to testify before you today and look forward to the introduction of the National Affordable Housing Act next year.

I would be happy to answer any questions.



STATEMENT ON THE NATIONAL AFFORDABLE HOUSING ACT

by

Howard G. Pals, AIA

on behalf of

The American Institute of Architects

before the

U.S. Senate Subcommittee on Housing and Urban Affairs

of the Committee on Banking, Housing, and

the Urban Affairs

September 28, 1988

Mr. Chairman, and members of the subcommittee, my name is Howard Pals, AIA, Chairman of the Housing Committee of The American Institute of Architects, whose views I represent today. I am a practicing architect with the firm of Linderoth Associates in Scottsdale, Arizona.

The AIA with 53,000 members across the country is the professional association representing this nation's architects. This year we celebrate our 131st anniversary. We are grateful for this opportunity to appear before you today to offer our views on the proposed National Affordable Housing Act, and the future federal role in housing. Today's hearing constitutes an important part of the growing national debate about the shape and size of the federal government's responsibility to meet this country's housing needs.

We commend you, Mr. Chairman, as well as Senator D'Amato, the other members of the subcommittee, and the excellent staff for extraordinary leadership and service in sparking this national discussion. We hope it will lead to the increased federal participation in the improvement of affordable housing opportunities. The AIA stands ready to offer the resources and expertise of its membership to assist you in achieving this goal.

The AIA and Housing

For almost three generations, the AIA has maintained public policies urging national attention to the development of decent, affordable housing and wholesome neighborhoods and communities at peace with their environments. That American architects should be concerned about the quality, affordability, and availability of housing for people of all incomes is only natural since architects play such an integral role in housing production and preservation -- from design to the determination of building codes and standards. In both their daily practices and through voluntary community service, architects work with all types of housing, rental and ownership housing, new and rehabilitated housing, historic landmark housing and specialized housing. In addition, effective federal housing programs are important to the practice of architecture.

In recent years, the AIA's concern for affordable housing has translated into legislative activities such as assistance in crafting the handicapped access provisions included in the new fair housing law, as well as direct AIA investment in finding local solutions to the problem of homelessness through initiatives such as our Search for Shelter program, of which we are very proud.

This past May, the AIA approved a resolution at our 120th annual convention calling for a more vigorous national effort to promote affordable housing, with the ultimate goal of a decent home for every

American family by the year 2000. The adoption of this resolution signals the AIA's recognition that housing must be placed at the top of the national domestic agenda, and it provides the impetus for the AIA's contribution of additional resources toward the advancement of this priority.

The National Affordable Housing Act and Housing Policy Today

The proposed National Affordable Housing Act, which we discuss today, is the centerpiece of a vitally important reassessment of this nation's approach to its housing needs. At the same time, the legislation must respect today's budget and policy environment. The federal government devotes fewer resources to housing needs now than it did eight years ago. In addition, the Reagan Administration's policy of reducing federal housing programs has required states and localities to devote much greater financial and institutional resources to meet their own low-income housing needs. With these factors clearly in mind, we are increasingly aware of the shrinkage of affordable housing that reaches up the income scale to affect people previously well-positioned to compete effectively in either rental or homebuying markets.

As we focus today on the federal role in housing, the AIA wishes to underscore the enormous influence over housing that exists at the local and state levels. Local zoning powers which determine the location, density, and type of housing; local and state building codes as well as the model codes which specify in exquisite detail the way to design a house or apartment building; local rent control laws;

housing trust funds and impact fees, and corporate and non-profit programs all have great implications for housing's future.

With the emergence of states and localities as greater forces for housing assistance, the federal government has gained valuable new partners in the pursuit of affordable shelter.

Yet even as we emphasize the importance of state and local government initiatives and private sector contributions, the AIA firmly believes that housing remains a national issue that demands national attention. The long-term health of local economies, the stability of labor supplies, the health and security of families, and the cohesiveness of urban neighborhoods are all national interests and all are related in one way or another to a good supply of decent, affordable housing. A strong federal housing program, shaped to the context of our times, must be established. The federal government has programs -- mostly poor cousins of those developed in the 1970's -- but it has no housing program.

How well the National Affordable Housing Act and similar measures come to grips with today's housing realities will determine whether the transition to a new era in housing policy will be smooth and effective or strewn with obstacles.

Today's Housing Needs

The decade of the 1980's has seen a dramatic reduction of federal contributions to housing for low and moderate income people. The 70

percent reduction in federal housing budgets, and a two-thirds decline in the number of additional poor households provided with assistance each year are both well-known. These cutbacks have occurred along with demographic and economic trends that together produce a crisis in the affordability of housing. This crisis has stimulated the development of new housing resources among states and localities, but is outpacing the capacity of these lower levels of government to meet serious and wide-spread housing needs. Soft spots in the employment picture -- in the oil producing states, in the farm belt, and in smockstack communities -- have depressed homebuying markets, even where housing prices remain stable and relatively affordable. By the same token, in high-growth areas, housing prices have soared, leaving behind even those benefitting from the boom times. A recent Washington Post article described how highly paid corporate executives balk at the high housing prices of the Washington area. How much more difficult it must be for those without the advantage of high pay!

A number of recent reports and studies have well-documented housing conditions in the country today. While we need not repeat the findings of these reports, we would like to highlight the statistics that we believe most accurately portray housing conditions today, and which new housing legislation should address.

Since 1980 the number and proportion of Americans living in poverty has increased, according to a recent study noted in the Washington Post, with 13.5 percent of our citizens subsisting on poverty level incomes. Blacks, Hispanics, single women with children, and new immigrants bear a

disproportionate burden of poverty. Among the poor, housing problems are endemic as the number of units they can afford fall short of the need by half, and as rents rise faster than their incomes. As many as 7.5 million households live in substandard housing or pay excessive rents. In the 1970's poor tenants paid about 35 percent of their incomes in rent, while today they pay closer to 50 percent. In 1979, the General Accounting Office declared in a report to the Congress that, "The rental housing problem is so severe that it requires the immediate attention of and action by the Congress and the Administration." Major reasons for the crisis, according to GAO, were low levels of production of moderate priced rental units, and the loss of units due to conversion and abandonment. In 1981, HUD added 117,000 new units to the inventory of affordable housing. By 1987, HUD's annual addition to the stock had dropped to less than 25,000.

Homelessness is prevalent in virtually all major cities and many smaller ones as well. Many homeless hold full-time jobs. In Northern Virginia, a recent survey revealed that as many as 83 percent of shelter residents were employed. Many homeless have been released from mental institutions where they do not belong to return to communities ill-equipped to accept them.

As housing prices rise, those who could expect to buy are now forced to rent, putting still further pressure on tight rental markets. Despite relatively low interest rates, rapidly increasing house prices and downpayment requirements have squeezed so many out of the homebuying market that the proportion of homeowners in the population has declined

over the last seven years. The decline was felt most keenly among those aged 24-39. At the same time, household formation is increasing at a faster rate than growth in the population.

The National Affordable Housing Act -- An Overview

In general, the AIA believes that the proposed legislation before the subcommittee today takes important steps toward accomplishing the following goals:

- * responsibly reasserting and redirecting the federal role in housing;
- * assuring a flexible response to the broad range of national housing needs;
- * establishing a stronger partnership among the federal government, states, localities, and the private sector; and
- * recognizing the relationship among homeownership, rental housing production and preservation, and special housing needs.

At the same time, the legislation omits several considerations important to housing affordability. These considerations include:

- * encouragement of statewide building codes, based on the model building codes;

- * federally-supported basic research into construction materials and techniques, and energy conservation; and
- * encouragement of qualifications-based selection of architectural and engineering services for federally assisted multi-family housing.

I would now like to comment more specifically on the proposed legislation.

Homeownership

Homeownership is the cornerstone of American housing, and one of the most tangible national symbols of our free enterprise system. Despite changes in tax policies and the reduction or elimination of several homeownership assistance programs such as the Section 235 program, the basic tools to encourage homeownership have remained intact over the last eight years. Various FHA and VA programs, the increased sophistication and responsiveness of the secondary mortgage markets, the home mortgage deduction, continued availability of single-family mortgage revenue bonds (now up for extension), and the government guarantee of mortgage-backed securities have opened the doors of homeownership to millions of moderate income American families.

Yet the time has come to sharpen these tools and develop new ones. The AIA strongly supports proposed increases in FHA mortgage limits to reflect the high costs conditions in particular housing markets. We also support lower downpayment requirements in recognition of the great

difficulty that young and first-time homebuyers have in securing necessary downpayments for today's housing. These reforms are essential if FHA is to serve all areas of the country equitably.

In some markets, the current mortgage limit falls far short of the average home price, wiping out the value of FHA assistance. At the same time, the high cost of housing entails very high, even prohibitive downpayment requirements. The median home price in the U.S. now approaches \$92,000 and in some communities ranges as high as \$150,000. The typical 20 percent downpayment plus closing costs, place such homes beyond the capacity of younger and first-time homebuyers. Even though the proposed lower downpayment will reduce a household's equity as a percentage of the sale price, the actual dollar amount of the proposed new downpayment should be sufficient to discourage delinquency and default. The AIA would not, however, favor proposals that seek to reduce the downpayment requirement to zero for FHA-insured housing. Proposals that would involve a short-term second trust to cover downpayments are marginally more acceptable, but would require careful study to assess the extent to which such proposals may result in greater delinquencies and defaults.

Since the FHA interest rate currently floats, and reduced downpayments naturally mean higher monthly payments, adjustable rate mortgages (ARMs's) have become an increasingly important means of expanding homeownership opportunity for modest income households. In May 1988, 53 percent of mortgages were adjustable rate mortgages. The AIA responds very favorably to the proposal in S. 2711, introduced by Senators Dodd and D'Amato, to permit FHA to insure ARM's which the Secretary of HUD finds have gained acceptance in the marketplace.

Although the AIA believes that further study is warranted, the proposed expansion of eligible 401(k) investments to include housing is a promising step, recognizing that housing can be an appropriate investment option in a retirement plan. It is complex but appropriately conservative.

Mental Housing Production and Preservation

The proposed legislation properly identifies the need for additional housing production and preservation to meet low and moderate income housing needs. It advances these activities through the establishment of a "Home Corporation", a vehicle to channel funds to states and localities for the implementation of housing strategies which they develop.

The proposed legislation would also revamp the Section 8 certificate and housing voucher programs to improve the delivery of federal rental assistance. The legislation acknowledges the critical importance of federal rental assistance to the success of state and local housing strategies.

Home Corporation

The key element of the National Housing Task Force Report (the Rouse-Maxwell report) was a Housing Opportunity Program (HOP) - a form of federal block grant to states and local governments. This proposed HOP would respect federal budget constraints while joining with state and

local housing resources to pursue housing strategies that they develop according to their own determinations of housing need. Simplicity and flexibility in use of HOP funds were basic principles embodied in the program.

The staff concept papers envision a program that seeks to incorporate most of the Rouse-Maxwell report's goals. The proposal's mechanisms, however, are quite different from the block grant and much more complex. The implications of a housing block grant are fairly easy to assess because we have solid experience with block grants, particularly the Community Development Block Grant. The Home Corporation is a new approach whose closest relative can be found in the current and past programs of the Government National Mortgage Association (Ginnie Mae). With its greater complexity, the potential of the Home Corporation is more difficult to gauge.

The AIA appreciates the cross-currents necessary to achieve consensus on housing legislation. Proposals must be balanced and the Home Corporation attempts to walk the fine line between a block grant approach and a government-sponsored credit institution. We believe that the Home Corporation is a creative and provocative concept. We see great advantage in a new mechanism that can generate new and recycled sources of financing through the leveraging of private and local/state dollars and the encouragement of local revolving funds. We also respond strongly to a program that seeks partnership with states and localities and the private sector in grappling with the myriad of housing needs. We also favor the program's concentration on strategies aimed at increasing the

supply of affordable housing. Generally, we have no quarrel with the details of the Home Corporation. We believe, however, that in limiting acquisition only to places with high vacancy rates and only through limited dividend cooperatives, it may be too restrictive. Acquisition using HUD funds should be permitted by any entity that agrees to retain the property for low and moderate income people for a specified period of time consistent with the other requirements attending the use of HUD funds.

At the same time, the AIA believes that the Home Corporation entails a number of issues, deserving further examination. First the program is more complex than the block grant approach. Therefore, its benefits may be overshadowed by difficulties. The proposed legislation anticipates that localities will issue mortgage-backed securities guaranteed by the Home Corporation and will also issue certificates for the corporation to purchase. The authority for localities to perform these functions

deserves study. Also, it is not clear whether the Home Corporation will supplant existing programs. The Section 112 rehabilitation loan program which currently operates from repayments, the HUDAC program which is no longer funded though still authorized, and the rental rehabilitation program could all easily be rolled into a block grant program in much the same manner as several categorical programs were folded into the Community Development Block Grant program in 1974. How the Home Corporation relates to Ginnie Mae and FHA is also unclear.

Rental Credits

The proposed legislation would replace the housing voucher and Section 8 existing housing certificate with "rental credits". This new rental assistance mechanism, with funds to be distributed to states and localities by formula, would carry contract terms of generally five years. Under certain circumstances shorter terms would be established in order to create a stable level of contract expirations and renewals. States and localities would determine whether the assistance is tenant-based (i.e. follows the tenant) or unit-based (i.e. stays with the unit to serve succeeding tenants), thereby making it available for use with newly constructed and rehabilitated units as well as existing housing.

The AIA has had serious doubts about the value of housing vouchers as a meaningful housing assistance tool, especially in tight rental markets. Vouchers can do nothing to expand the supply of rental housing, and according to HUD's own studies may actually cost the government more while providing less assistance to beneficiaries when compared to Section 8 certificates. Yet we have recognized that the fifteen year contract term of the Section 8 certificate program results in enormous up front budget authority costs.

The rental credit is a key provision of the proposed National Affordable Housing Act. It is designed to work with the Home Corporation's program of state and local assistance, and to squeeze out the weaknesses of both vouchers and certificates, while preserving the best features of each form of assistance. Although we generally favor the rental credit

concept, we offer several cautions. The short-term contract permits the rental credit to fund more units for the same amount of budget authority as the fifteen-year Section 8 certificate. Thus, the credits will have to be renewed earlier. At the same time, the credits provide less certainty of continuing rental assistance and thus may have reduced effectiveness in encouraging new development. The proposed legislation attempts to reduce this uncertainty by seeking agreements from owners participating in the program to maintain their units for low-income tenants as long as HUD makes the rental assistance available. HUD's failure to do so could lead to displacement of existing tenants through the conversion of their units to market price.

Distribution of rental credits by formula to states and localities rather than through area offices assumes sufficient appropriations for meaningful allocation amounts. Formula distribution provides a certainty of funding that categorical approaches do not.

The proposal's opportunity for alternative fair-market rent systems, developed by states and localities to reflect their conditions more accurately, will mean greater likelihood that federal assistance matches the realities of local housing markets. It should also lead to more rapid use of rental assistance in tight rental markets, and may reduce the extent to which a locality must devote scarce resources to hire personnel to comb the community for eligible units. In some cases, restricted housing supplies are further reduced by the unwillingness of landlords to participate in federal rental assistance programs. The subcommittee should consider directing the Secretary to devise outreach

programs to landlords whose units meet FMR's to urge the acceptance of tenants with federal assistance. Of course, reductions in program paperwork may bolster the effectiveness of any outreach.

The AIA strongly supports the legislation's standard of a maximum rent/income ratio of 30 percent. Although the higher rent/income ratio permitted under the voucher program has in many cases reduced the proportion of income that households must pay, it has not always made their housing affordable. In our view, federal rental assistance should not just reduce rent burdens but should also make housing affordable.

The AIA would like to suggest that the subcommittee study the feasibility of permitting localities to supplement rental credits with local rental assistance for very hard-to-place families. Such supplemental assistance is not currently provided because it counts as income to the tenant, reducing not only the federal rental assistance dollar-for-dollar, but other public assistance benefits as well.

The AIA supports the proposed income eligibility criteria because the federal government should target its assistance to the neediest individuals. Because few projects today contain 100 percent assisted tenants, this proposition need not interfere with the goal of encouraging assisted housing environments that contain a range of household incomes. We also suggest that the subcommittee examine HUD's system of calculating income to ascertain whether the allowable deductions accurately account for unusual expenses.

Supportive Housing

The staff concept papers would increase the visibility of supportive housing for the elderly and handicapped within HUD through organizational changes, retrofit existing federally assisted housing to accommodate supportive services, and reform elderly and handicapped housing production programs. The proposed legislation properly recognizes that housing designed to meet specialized needs - for the elderly, the handicapped, and the homeless - must form an integral element of a comprehensive housing program. We are particularly pleased with the proposal's sensitivity to the significant role of good design in the success of housing for this country's special needs populations.

The AIA has supported the Congregate Housing Services Program (CHSP) as a model for bringing support services together with housing to help the frail elderly and the handicapped remain independent in their own homes. The proposed legislation intends to build on this program, which now operates only in a relative few Section 202 and public housing projects, by encouraging similar housing/services arrangements for the broad range of assisted housing projects. As the population ages, this type of federal program becomes increasingly important.

Strong linkages exist between the provision of specially-designed housing for the frail elderly and handicapped and the availability of services. For example, housing designed with central dining facilities and units that contain only half kitchens or even no kitchens must be guaranteed the availability of food services or the housing will accommodate neither the target population nor tenants without disabilities.

The staff concept papers raise several concerns. It is unclear how the proposal relates to the existing CHSP, which recently received permanent authorization after almost nine years of successful demonstration. The proposed program does not appear to expand the resources either for services or for building retrofit, which is often necessary to accommodate the support services, such as meals. While funds for retrofit could be obtained from several existing sources, a new block grant, or the Home Corporation approach, there would still exist great difficulty in filling gaps in the fragmented service delivery system, particularly in full meals service. The CHSP is designed to fill these gaps. The staff concept paper, however, envisions that states or localities would do so. In return they may receive special incentive grants, which are only temporary, and funding for service coordinators, which would apparently come out of existing funding sources. Several states, including Maryland and Massachusetts, and at least one locality, Arlington County, Virginia, have established their own CHSP-type programs. A federal partnership approach that provides production and rehabilitation assistance for specially designed housing, and which matches state and local programs promoting packages of tailored services for frail tenants, offers what we believe to be the most useful and successful model.

The proposed legislation reforms the financing mechanism for the Section 202 housing program for the elderly and handicapped, by separating the development financing from the rental assistance necessary to pay off the loan. Instead, the federal government would provide interest free

forgivable loans, collect rental payments equal to 30 percent of each resident household's income, and fund the difference between the rent collection and the operating costs. This proposal offers a way out of the current system which, in effect, double counts the cost of producing the Section 202 housing, and hopefully frees up budget authority for use in establishing the supportive housing programs as recognized housing options. The new proposal is not risk-free as it duplicates at least in broad fashion, the funding mechanism for public housing. Unless the federal government faithfully pays the operating deficit according to a realistic formula, it risks replicating for private non-profit sponsors the unhappy experience of some public housing authorities which have often found the performance funding system inadequate to cover operating costs, especially for insurance and energy.

The AIA would also like to take this opportunity to bring to the subcommittee's attention problems with HUD's cost containment rules for Section 202 projects. They can so constrain design in an effort to spread the limited resources more widely that basic purposes of the housing can be compromised. For example, projects have been built without central dining facilities because the allowable development costs would not permit it. This means that meals must be prepared off-site and delivered to individual units for tenants too frail to prepare their own. As a result these persons are denied the opportunity to congregate with others and may receive a level of food quality that may not compare with food prepared on-site. HUD has also refused to permit elevators in two-story projects and denies other amenities often found in non-luxury, unsubsidized projects.

In this program and others, the federal government should serve as design model for others. It should set a standard of design to which all engaged in the production and preservation of housing should aspire. Close attention to design lowers life-cycle costs, but also helps to ensure buildings that properly relate to their settings, and generates public confidence in the quality of federal housing efforts.

The AIA generally supports the proposals for the housing for the handicapped loan fund, with similar cautions to those expressed in relation to the elderly housing loan program. We would offer three additional comments that pertain directly to the proposal's provisions for handicapped housing. First, it is unclear that the proposal will continue to allow acquisition and moderate rehabilitation of facilities as contained in the current program. Second, the proposal does not mention whether it plans to continue to focus the program's resources on the development of small group homes. Third, the proposal appears to establish standards for handicapped access that conflict with those of the new fair housing law. The AIA worked closely with the U.S. Senate and House committees, the National Association of Homebuilders and others to develop workable provisions to expand opportunities for handicapped access to apartments.

The staff concept papers state that new legislation will require states and localities participating in the Home Corporation's HOP program to certify that a specific percentage (to be determined later) of the units constructed or rehabilitated under the program are accessible to

handicapped persons and adaptable for use by non-handicapped persons. Prior to enactment of the fair housing law, state and local codes and federal regulations for federally-assisted housing required that a certain small percentage of units be designed for full accessibility by the handicapped, and that virtually all newly constructed buildings be accessible into the buildings and their public and common space. The new law would require not only accessibility into buildings and their public and common space, but would establish other standards as well. These standards, among other things, require that kitchens and bathrooms be usable such that a handicapped person can maneuver about the space. Doors meant for passage must be sufficiently wide to allow passage by wheelchair. And the unit must be adaptable to accept other features to accommodate handicapped persons at their expense. The staff concept papers appear to promote a design requirement that makes some increase in the proportion of accessible units in each new building, and then makes such units adaptable for non-handicapped persons. The fair housing law, on the other hand, would require units to contain basic accessibility features and be adaptable to handicapped persons. The new fair housing law is a carefully crafted compromise that we urge the subcommittee to examine closely and not disturb.

Homeless Assistance

The AIA fully supports the incorporation of the Stewart B. McKinney Homeless Assistance Act into the framework of a National Affordable Housing Act. Homelessness is a housing problem. It is inextricably bound to the availability, affordability, and quality of our nation's

housing supply. Therefore, homeless relief must be placed on the continuum of federal housing responses, and it must be carefully integrated with social services designed to move individuals and families beyond their homeless condition into permanent housing to the maximum extent possible. Warehousing the homeless is not homeless relief.

We generally support the provisions of the proposed legislation, conditioning our support for formula distribution of homeless assistance funds on the sufficiency of appropriations to provide meaningful amounts to individual localities.

While the AIA strongly supports the idea of separate supportive housing for families, we do not believe that the program should be limited to a relationship with public housing projects. Many communities do not have housing authorities, but certainly have families in assisted housing who would derive great benefit from a program that combines appropriately designed housing with support services aimed at boosting their chances for entering the mainstream of economic life.

Because homelessness has many roots and the experience of individual communities differs, local responses to homelessness are particularly effective.

As a result of our Search for Shelter program, the AIA has developed considerable experience with homeless conditions and responses to those conditions throughout the country. In this program, which is sponsored by the AIA, the American Institute of Architecture Students and the

Senator CRANSTON. Thank you very much for your helpful testimony and thank you for noticing the red light. We appreciate it very much. Your full statement will go in the record.

Ms. Johnson.

STATEMENT OF CAROL T. JOHNSON, TRUSTEE, NATIONAL TRUST FOR HISTORIC PRESERVATION

Ms. JOHNSON. Thank you very much.

I am Carol Johnson, trustee of the National Trust for Historic Preservation and long-time person committed to housing. I spent 13 years at the Federal Home Loan Bank where we loaned \$850 million to savings and loans throughout Ohio, Kentucky, and Tennessee for the purpose of community reinvestment. Today, 5 to 10 years later, there is much to show for those dollars that were spent.

Today I am speaking on behalf of the National Trust for Historic Preservation, which is the only national private nonprofit organization chartered by Congress with the responsibility for encouraging the preservation of sites, buildings, and objects. Today we will focus on affordable housing.

We have submitted under separate cover a testimony. My comments are in addition to that.

Ms. JOHNSON. The National Trust supports your efforts to develop new comprehensive national housing legislation. We believe that old and historic neighborhoods are an important source of quality, affordable housing which should be specifically targeted as such in the new housing legislation.

In every major city and many rural communities, there are houses that are abandoned and currently boarded up. These structures, alone or as groups, do have some history. We, as the National Trust, would like to be about the business of saving all of them.

In an effort to provide affordable housing, old and historic buildings are resources existing already and could serve as the cornerstone for new housing programs. Attached to the written testimony is a letter from Jack Walter, president of the National Trust to the Honorable Joseph P. Kennedy, II, in which the Trust endorsed H.R. 3891, the Community Housing Partnership Act. It reflects the Trust's conviction to leveraging and matching public and nonpublic dollars to generate housing.

The reality of affordable housing is that it's tough to handle the hard-to-house folks because only the people in the neighborhood can deal with them. The people in the neighborhoods are the nonprofit organizations, the people who breathe the same air and deal with the same problems. The National Trust applauds the concept papers' recognition and incorporation of nonprofit organizations into the housing partnership.

We have come to appreciate that some tasks are better done and better undertaken by nonprofit organizations and by people in the neighborhood. They are a critical source of technical expertise and assistance in the necessary chain of activities.

However, as we try to assist in providing affordable housing as nonprofits, we are faced with a bureaucracy that tests the limits of time of anyone's interest. Let me cite a few examples.

Savannah Landmarks in Savannah, GA has been working for 3 years to put the financing together to restore 100 units of low-income housing. The Mount Auburn Good Housing Foundation in Cincinnati spent 6 years packaging 99 units for low-income housing. The National Temple Nonprofit Corporation in Philadelphia spent 5 years to do only 12 houses. Chicago's 18th Street Development Corporation spent 6 years renovating 9 apartments. Christmas Addicts Association in York, PA spent 3 years to do 8 row houses. Shreveport Landmarks spent 5 years to deal with 65 properties. This period of time covers the packaging and putting together. That is the length of time.

These examples show the importance of the need for commitment to help those out there who are working and producing affordable housing in spite of the odds against success.

As the record of the National Trust demonstrates, we are also firmly committed to the rehabilitation and low-income housing tax credits, together and individually, because they are incentives for new and renewed investment in our old and historic buildings.

NEW TAX INCENTIVES

In addition, new tax incentives need to be awarded to current home owners. I've been in this business since 1972 and we are looking at the same problems now as we looked at then. We simply keep citing the problem under a new academic discipline. In the 1970's we were trying to conquer redlining. Today we are trying to conquer affordable housing.

I think the way we need to conquer this monster is to provide workable financing strategies for multifamily housing and restructuring the existing debt on current housing by a secondary market which was created for that purpose.

There are two target audiences that I believe need attention—the low-income persons who need total support along with housing, and the middle Americans who make this country work, such as teachers, policemen, firemen, and government workers. They all deserve the right to participate in the American dream. But without unique financing tools, which are only available to those who don't need it, we will never be able to reach down and permit them to enjoy the housing dream.

It's American to own your own home and to ride out on Sundays and look for your next home.

Mr. Cranston, I appreciate the opportunity to speak before you. Thank you.

[The complete prepared statement of J. Jackson Walter follows:]

Neighborhood Reinvestment Corporation, architects in particular localities bring together elected officials, community activists, business people, charitable organizations, and others concerned about the homeless to examine the problems from the local perspective and then devise solutions specially tailored to each community's needs. In a number of cases, the local Search for Shelter program has led to the development of actual facilities, while in others it has stimulated a greater awareness of homelessness and its dimensions or spurred homeless relief efforts already underway. Currently, thirty-seven cities have participated in the program, including three in California, four in New York, and in other states represented on this subcommittee. In Phoenix, Arizona, the program was a key element in the successful project to rehabilitate a vacant nursing home into permanent housing for single women. In Shreveport, Louisiana, the program led to the transformation of a dilapidated, but historic old hotel into single-room occupancy housing for forty-five residents. I have attached a package of information about this program and its activities.

Through our experience at the local level, we can testify to the fact that homelessness is growing, its dimensions are broad, it increasingly involves families and the employed, and its condition is varied. We find tremendous local interest in addressing the problem through the most appropriate local solutions. Federal assistance, in a form that easily blends with the public and private resources committed at the local level to homeless relief can make the difference between success and failure of these home-grown activities. We will be happy to share with the subcommittee additional success stories to provide information about the

energy and resourcefulness which exists in local approaches to deep-seated housing problems, and how the federal government's programs can and do contribute to their success.

There are several other issues bearing directly on housing affordability that we would like the subcommittee to consider. First, is the qualifications-based selection of architectural and engineering services. The AIA has long-standing policies supporting this selection process which focuses on publicly funded projects. The extension of this process to public housing construction and modernization, and, if practical, to other federally-assisted housing production and preservation projects is a concept that deserves serious consideration.

Currently, federal procurement of architectural and engineering services for public buildings and certain other major projects is governed by F.L. 82-592, the Brooks Act. Under the Brooks Act procedures, a federal agency selects the three most qualified firms for the project at hand. Negotiations on the project's details and cost proceed with each of the qualified firms in turn until a final choice is made.

The Brooks Act promotes quality in federal construction, and successfully ensures the selection of qualified professionals to produce safe, well-designed, cost-effective public buildings and structures. In addition, it encourages competition on the basis of professional skill and ability. Housing subsidized by the federal government should be just as well-designed and as structurally sound as any other.

federally-financed or assisted structure, especially in light of the role that good design can play in the success of housing projects.

While there may be practical issues in extending the Brooks Act to federally-assisted private housing, a strong case can be made for protection of the public interest through qualifications-based selection procedures for public housing construction projects and for housing developed under programs like the Section 202 program where the federal government provides the entire amount of project financing.

A second issue concerns building codes. The AIA believes that the proposed legislation should encourage the adoption of uniform building codes within a state or sub-state region, based on one of the model building codes. Some states such as Virginia and New Jersey have adopted uniform codes. Others have a mixture of building codes. Some communities have codes that are hopelessly out of date, and unless the ordinances are revised the codes are largely unenforceable. For example, approximately fifty percent of Missouri is not covered by any building codes, and only recently did the 96 separate jurisdictions of one county agree to put aside their separate codes and, with some modifications, unite behind a single code.

Uniform, up-to-date building codes and streamlined regulatory processes can substantially reduce construction costs by providing greater certainty among architects and builders about what is expected of them, by reducing procedural delays, and by incorporating the latest accepted construction techniques and materials. While new and rehabilitated

multi-family buildings may be covered by federal minimum property standards, the vast number of privately developed housing units are not covered by such standards and rely on what prevails at the local or state level. The proposed legislation could promote uniform building codes at the state or sub-state regional level by including in any block grant or Home Corporation distribution formula a special "kicker" for those states that have demonstrated progress in the adoption of uniform building codes.

Closely related to building codes and housing affordability is the federal role in buildings research. By supporting basic research into the durability, suitability, energy efficiency and effectiveness of building components and materials including factory built components and modular housing, in partnership with private enterprise, the federal government can significantly enhance the production of quality housing at affordable cost. For example, a \$2.5 million federal investment in daylighting research led to \$200 million in private commercial investments and billions of dollars in real and potential energy savings. An important by-product of such research is also American competitiveness in world markets. The United States currently spends less on energy conservation research as a proportion of its budget than do a number of industrialized countries and far less today than it did in 1981. As a result, these countries have developed an edge in competing with the United States in the commercialization and the marketing of advances in energy conservation products. In 1980 federal energy conservation funding totaled \$775.6 million, and in 1987 came to only \$375.2 million. In FY 1988, the U.S. spent \$36 million on photovoltaic research (down

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from \$153 million in FY1981). With much smaller economies, the Japanese will spend \$53 million and the west Germans \$61 million on the same research this year. The legislation should ensure that HUD gives important priority to public/private partnerships in basic research of building components and materials.

I would also like to note very briefly our concern about two legislative issues closely related to housing but not within this Subcommittee's jurisdiction: tax reform and infrastructure. For development of multi-family rental housing for people with modest incomes, the Tax Reform act was a major setback. Important tax incentives were lost that were only partially offset by the enactment of the low-income housing tax credit. The new law can discourage the smaller investor and interfere with the feasibility of proposed projects. Infrastructure is related to housing because it involves the capital projects such as the water and sewer lines, the roads and sidewalks and the other community facilities on which housing relies. Public investment in the Nation's infrastructure has failed to keep pace with the growing need for public facilities' repair, improvement, and development. The subcommittee needs to be attentive to the impact of these issues on affordable housing and willing to raise its voice at the proper time to see that housing is properly considered in their discussion.

The United States stands at a crossroads in housing policy. No matter which Administration takes office in January 1989, the federal government must make housing a top priority. Growing public opinion supports it, and the serious needs among many segments of society demand it. The proposed National Affordable Housing Act takes a large step down the path that leads to an effective, responsive federal housing policy and program.

Mr. Chairman, this concludes my testimony. I am happy to answer any questions you may have.

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National Trust for Historic Preservation

Testimony of

J. JACKSON WALTER, PRESIDENT
THE NATIONAL TRUST FOR HISTORIC PRESERVATION

before the

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

on

The National Affordable Housing Act
Staff Concept Papers

September 28, 1988

The National Trust for Historic Preservation supports your efforts to develop new and comprehensive national housing legislation. As the nonprofit organization chartered by the Congress in 1949 to promote public participation in historic preservation, the National Trust believes old and historic buildings and neighborhoods can be an important source of quality affordable housing which should be specifically targeted as such in new housing legislation. Historic preservation is not merely an environmental goal in and of itself, but a tool with which actively to produce decent affordable housing and neighborhoods. Toward the goal of housing legislation that takes advantage of the tool of historic preservation, we offer the following comments on the National Affordable Housing Act Staff Concept Papers dated August 12, 1988.

A Comprehensive National Policy

New housing legislation should state explicitly that it is national policy to take advantage of all potential sources of affordable housing, including old and historic building stock, in order to meet America's housing needs. Moreover, the goals of the Office of Affordable Housing Preservation should include the preservation and rehabilitation of old and historic properties as affordable housing. In short, "preservation" should be defined explicitly to include "historic preservation"

and the preservation of all existing sources of affordable housing, including old and historic properties.

Communities throughout America have demonstrated repeatedly the value of historic buildings and neighborhoods in community-strengthening efforts, whether it be in producing shelter and homes for low income residents, or housing the small businesses important to a neighborhood's economic vitality, or providing the visual anchor that helps to define neighborhood identity and stimulate pride and investor confidence. Old and historic buildings are resources existing already in many communities that can be a foundation for an area's housing program.

Although some language in the Concept Papers suggests a broad intention to encompass all existing building stock in a new housing program (for example, on page 16), references to existing housing and preservation of it emphasize only housing produced with federal assistance. In fact, old and historic building stock exists which was not produced and is not assisted by federal funds, and which represents a new or renewable source of housing. Therefore, not only "preservation," but "historic preservation" should be included explicitly as a housing program goal. Although the issue of existing housing whose federal assistance is expiring will have to be addressed, the overall major point of new legislation must be to mobilize in an comprehensive manner whatever sources and techniques are available to meet our very serious housing needs. Privately owned, unsubsidized building stock, including historic building stock, must not be overlooked or ignored.

Nor must any existing affordable housing be discriminated against. The National Trust does not support the Concept Papers' bias against "light to moderate renovation (p.22)." Specifically, federal assistance such as the proposed Investment Certificates should be available not only for "substantial rehabilitation," but also for "light to moderate renovation" precisely in order to avoid major costs resulting from deferred maintenance and disinvestment. As the insightful National Housing Task Force Report demonstrates, both pictorially and by case example, rehabilitation and maintenance of existing building stock is a key factor in breaking the cycle of deterioration, disinvestment, and loss that reduces our affordable housing supply.

We are concerned by the Concept Papers' silence regarding affordable housing in rural areas. For example, omitted from the Concept Papers is any provision regarding the Farmers Home Administration (FmHA) and improvement of its role in producing and maintaining affordable housing in rural America. At

minimum, new legislation should coordinate HUD programs and policies with those within the jurisdiction of the Department of Agriculture (DOA). Special attention is needed to address the very different problems confronting the intended beneficiaries of DOA's programs. The National Trust is concerned in particular about the FMHA's growing inventory of rural properties and what appears to be a programmatic bias generally against rehabilitation and re-use of old and historic properties.

Role of Nonprofit Organizations

The National Trust applauds the Concept Papers' recognition and incorporation of nonprofit organizations into a housing partnership (for example, on page 31). Particularly important is the recognition of the diverse roles nonprofits can play in achieving affordable housing goals. In our view, some tasks are best undertaken by nonprofits or a combination of nonprofits. For example, the National Trust's Inner-City Ventures Fund (ICVF) consciously targets and works with community-based nonprofits to revitalize historic neighborhoods and ensure ongoing community control of the community's own destiny. A critical part of our ICVF projects is the creation and long-term preservation of affordable housing.

Because of the National Trust's strong convictions, based on our ICVF and other experiences, about the role of nonprofit organizations, we have endorsed H.R. 3891, the Community Housing Partnership Act, introduced by Representative Joseph P. Kennedy, II. Our letter of endorsement, a copy of which is attached, elaborates on our belief in the essential role of community-based nonprofits in breaking the cycle of neighborhood deterioration, disinvestment, loss of jobs and housing, and displacement. We recommend that H.R. 3891 be incorporated into the national housing legislation package.

In addition to being effective sponsors of affordable housing, nonprofit organizations are a critical source of technical expertise and assistance in the chain of information development, analysis, and education. The National Trust is able to comment today as an advocate on behalf of historic preservation because of our wide experience in all aspects of the referenced information chain. Our charter mission as an educational organization and our statutory role in the national preservation program established by the National Historic Preservation Act means that we have a unique role in bridging the many subject areas in which historic preservation is involved and can contribute.

It is our belief that an especially effective bridge is possible between the proposed Office of Affordable Housing Preservation and the National Trust in targeting old and historic buildings and neighborhoods for affordable housing and decent environments supportive of their residents. Together we can develop the data essential to formulating the techniques and programs that will produce success.

In this regard, we applaud in particular the recognition on pages 26-27 of the Concept Papers that current land-use controls and building codes can be obstacles to affordable housing and should be corrected. The National Trust would like especially to be a participant in the analysis and modification of such controls and codes to help them promote affordable housing. Too often historic preservation is blamed for what we believe is really the result of outdated building codes or short-sighted land-use controls, when in fact historic properties, too, are victims. We support flexibility in allowing state and local governments to shape federally stimulated housing programs to best address their particular needs as long as such programs productively use those historic buildings that make sense for affordable housing.

Incentives for Affordable Housing

Truly comprehensive national housing legislation must include incentives to produce and maintain affordable housing in order to address short- and long-term housing needs. The current supply of affordable housing must be analyzed in order to avoid repetition of the factors that have produced today's dwindling affordable housing supply. We support the Concept Papers' provision for an "ongoing analysis of market forces and public policies that may adversely affect (page 16)" the supply of affordable housing in order to provide the data on which successful incentives can be based.

As our record demonstrates, the National Trust is committed firmly to the rehabilitation and low-income housing tax credits together and individually because they are incentives for new or renewed investment in our old and historic building stock. The Douglas Avenue Project in Macon, Georgia, for example, used both credits to rehabilitate substandard historic housing in the city's oldest black residential district. Eight deteriorating "shotgun" style houses in the Pleasant Hill Historic District were rehabilitated into useful lives as quality affordable housing in what the city anticipates will be a model for additional housing production. So that such efforts can be duplicated more easily elsewhere, new housing legislation should enhance use of not just the low-income

housing tax credit, as suggested on page 32 of the Concept Papers, but also the rehabilitation tax credits.

The historic rehabilitation tax credit is available for more than affordable housing, of course, but it is unique among the federal rehabilitation credits in being available for income-producing residential buildings. We support the enhancement of the federal rehabilitation and low-income tax credits specifically to leverage substantial new investment in affordable housing. Moreover, we support adjusting federal tax law to improve the ability of nonprofit organizations to join with private investors in initiating and financing affordable housing. Consequently, we recommend that such legislation as the Community Revitalization Tax Act of 1988 (H.R. 4048 and S. 2115) be made part of the new housing legislation package.

In addition, new tax incentives are needed to encourage investment in owner-occupied housing. In order to prevent existing owner-occupied housing from joining the ranks of at-risk or lost housing, particularly in the case of elderly fixed-income owners, home maintenance and rehabilitation incentives are essential. The Concept Papers include provisions to help individuals become homeowners; the new national housing legislation should also include provisions to help homeowners remain homeowners.

The National Trust for Historic Preservation looks forward to working with you to develop comprehensive national housing legislation that effectively and productively uses the nation's old and historic building stock.



National Trust for Historic Preservation

May 2, 1988

The Honorable Joseph P. Kennedy II
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Kennedy:

The National Trust for Historic Preservation wholeheartedly endorses H.R. 3891, the Community Housing Partnership Act. In philosophy and approach the Act reflects the National Trust's own commitment to revitalization of the nation's old and historic neighborhoods through community-based mechanisms.

H.R. 3891 is particularly appealing to us as a housing strategy that aims for long-term affordability and community involvement. The federal dollars used in the program represent an efficient federal investment leveraging matching dollars from nonfederal sources and the long-term "return" of housing that remains economically available to those most needing it. H.R. 3891 is appropriately flexible in allowing early seed funding and organizational support. Early federal commitment will be critical to attracting the additional monies any project requires, especially in deteriorating areas not perceived as financially desirable. Finally, we applaud H.R. 3891 also for its emphasis on continuing technical assistance to nonprofit project sponsors on the management and conservation of their housing. On-going technical assistance is key to breaking the cycle of deterioration and loss of housing stock.

Taking advantage of a community's existing physical resources in partnership with community residents and businesses produces more than physical shelter. Such a partnership also generates the long-term economic stability and vitality a community must have in order to survive and thrive. Preservation of a community's unique older and historic properties in particular can generate a mix of affordable housing and commercial space in which the community has pride and an economic stake. In addition, preservation of older and historic properties often serves as the anchor investment that stimulates additional investment in a community.

As the private nonprofit organization chartered by Congress in 1949 to promote public participation in historic preservation, the National Trust for Historic Preservation applauds your legislation's efficient federal investment in a housing strategy that emphasizes long-term affordability and partnerships with communities. Such a strategy will be an essential part of a successful national housing agenda. We look forward to supporting your efforts in any way that you would find useful.

Sincerely,
Jackson Walter
Jackson Walter
President

1785 Massachusetts Avenue, N.W.
Washington, D.C. 20036
(202) 673-4000

Senator CRANSTON. Thank you very much.
Mr. Welden.

**STATEMENT OF CHARLES V. WELDEN, JR., PRESIDENT,
NATIONAL LEASED HOUSING ASSOCIATION**

Mr. WELDEN. My name is Charles Welden. I am a partner in the Birmingham, AL law firm of Welden and Harbin, and I'm president of the National Leased Housing Association on whose behalf I testify today.

On behalf of Mr. Godin and myself, I would like to thank Senator Shelby for his kind words.

I will focus my testimony on the portion of the staff concept papers directed to rental housing, the provisions creating the HOP-HOME program, as well as the new rental credit concept. I will summarize my testimony and request the entire testimony be placed in the record.

Mr. WELDEN. I would first like to address HOP and HOME. The HOP and HOME mechanism embodies the block grant program. NLHA strongly favors the housing block grant, particularly since the Federal Government must have a continuing and an increased presence in making significant funds available for low-income housing.

We endorsed the block grant concept in our submission to the Rouse-Maxwell task force.

CERTIFICATES OF INDEBTEDNESS

We have several suggestions as to HOP and HOME. First, we are not convinced of the need to establish the rather intricate mechanism of requiring localities to issue certificates of indebtedness and further creating a new governmental entity to purchase them. Many cities and localities will face difficulty in administering a block grant program as such. Why complicate it further with the HOP-HOME method of funding?

Second, homeownership is a permissible block grant use.

In view of the fact that the median income of renters is exactly half that of owners, we question whether scarce Federal funds should be made available under the block grant program for homeownership. If it is to be used for home ownership, we think it ought to be a slow second, repayable upon sale.

Third, we have serious questions as to whether block grant funds alone would normally be sufficient to produce the needed rental housing. There is unanimous agreement among our knowledgeable members that normally block grant funds alone will not produce housing. It has to be in conjunction with low-income tax credits or some other form of assistance either through payments or tax exemptions. Accordingly, in structuring the block grant mechanism, Congress should be careful not to impose restrictions that would cause a project to be ineligible under the tax credit or future tax laws.

Also, we think Congress should not believe that because it has adopted a block grant program that no further assistance is needed. We feel that you've got to have something to go with it, that the block grant alone will not produce the housing.

Fourth, on the subject of income targeting, maximum flexibility should be left to the local community instead of imposing severe low-income targeting restrictions. Some communities may well feel that the best use of block grant funds would be to provide shallow assistance for the development of housing for middle and moderate income families. Such housing could not only assist these families but also families assisted under the new rental credit program.

Fifth, although each community should be free to fashion its own program, we feel that HUD should develop program models which could be replicated throughout the country. This service would be a great benefit to the cities trying to administer the program as well as to developers who try to develop properties in more than one city.

Sixth, we question whether the HOME corporation is needed to guarantee the principal and interest on securities backed by pools of qualifying mortgages for rental housing. At this time, HUD's co-insurance program is providing a ready source of funding for multi-family projects. Under the co-insurance program, the private sector assumes part of the risk, whereas the other way we're talking about the Federal Government taking 100 percent of the risk.

Next, I would like to address the preservation issue. Although the staff concept paper addresses the need for HUD to establish a new office concerned with the preservation of existing housing stock, it does not address the thorny issue of prepayment. This is a real concern to us because in February 1990 the current legislation expires and the issue is going to have to be addressed in 1989 and we don't think Congress will do two major pieces of legislation in one year and we think it's inevitable that they end up together.

The staff paper promotes the private sector being involved in the block grant program and we applaud this. Unfortunately, many in the private sector feel that the Government has welched on its obligations by abrogating the right of prepayment on section 221(d)(3) and 236 projects. If we want private sector participation, there must be some reassurance to the private sector that the Government will keep its word.

Finally, the rental credit program. We applaud the staff paper concept of continuing to utilize existing rental housing to serve low-income Americans through a rental assistance program. Equally sensible is the desire to end the debate between the advocates of certificates and vouchers, as both programs are based on the concept of utilizing existing housing.

We feel that the allocation of funds should be done by HUD because there's a mechanism already in place. We think they should be allowed to attach the credits to the units so that you can get financing for the development and we think there should be a 15-year term instead of a 5-year term so that it will mesh with the low-income tax credits.

I appreciate the opportunity to have testified on behalf of NLHA and we will comment further as the legislation progresses and I'm sorry that those of us from the South talk a little slow and we can't get through in the same amount of time.

[The complete prepared statement of Mr. Weldon follows:]

Senator CRANSTON. Thank you very much.

With respect to the long-term preservation problems, we intend to deal with that in the legislation. We will be working it out.

I'd like to first turn to you, Henry. I know you're a long-time advocate of public housing. Earlier today—I don't know if you were here—I expressed my own commitment to making sure that public housing remains a strong element of Federal housing policy.

You noted in your statement that the staff concept papers didn't mention Davis-Bacon requirements. Actually, a number of fundamental requirements weren't mentioned because in the preliminary draft we simply assumed that provisions such as Davis-Bacon, antidiscrimination, and antifraud provisions will certainly apply to this legislation, as they have to all other housing legislation.

I'd like to ask for your comment on one area of opportunity that remains to be developed before legislation is introduced.

I suspect we could use the huge resources of the Nation's pension funds more intelligently to support affordable housing. Obviously, we'll have to protect the safety and soundness of pension systems and the long-term economic interests of the beneficiaries.

What would you suggest as promising ideas to explore along these lines? What do you think would be the best way for the subcommittee to work with you and others to develop a prudent way to invest pension funds in affordable housing?

INVEST PENSION FUNDS IN HOUSING

Mr. SCHECHTER. The AFL-CIO has a housing investment trust which gathers funds on a voluntary basis from many pension funds—labor pension funds—that wish to invest. It is growing rapidly. It does not necessarily invest at this time in low-income housing, although it did when 221(d)(3) was available and so on.

So that that's a fund that under the ERISA law has to be prudent and obtain a return which anybody else can obtain. And that fund has been growing. I think that sort of organization can be expanded. There are some others on the west coast.

So I don't think there's any problem in getting that done. Again, it has to be voluntary and, to the extent that it's successful, it will increase.

But I would like to get back to the question of public housing and I wasn't being just an advocate of public housing. The reason I raised the question is because I recognize, as I think everybody else does, that budgetary funds are going to be tight and, therefore, we have to preserve them and get the most cost-effective avenue to provide low-income housing.

Given our experience, which is coming to a head these years, with having a 20-year prepayment or even if it should be a longer-term mortgage or a longer-term period under the contract, or the 5-year rental credit, which is suggested—leaves the Government open to payment for the increased value of property. Inevitably, we're going to have some inflation creep and so, if we are concerned with cost-effectiveness, we ought to get the benefits of home ownership which the Federal Government gets with public housing; even though it's not the owner, at least the property remains in

public ownership and there is no additional subsidy required when values have gone up after 5 or 10 or 20 years.

Now I know there's a question of still putting more Federal resources into it, and that's why I suggested that we ought to get what is a more logical system of bookkeeping by not having to charge off the entire cost of a public housing project.

Now let me point out, too, that Secretary of HUD, Sam Pierce, goes around talking about how he has reduced the housing debt, as he calls it, by some tens of billions of dollars. Those are the repayments, the amortization, of the bonds that were issued when the early public housing projects were built. They get paid off and, therefore, those units which are now being used are being used under the same concept as some home owner who has paid off his mortgage. And the subsidy costs are very low. They are only for some operating and modernization expenses.

And I suggest that we would have a great advantage by using that approach rather than the approach which makes the Government pay more because private ownership has its rights.

Senator CRANSTON. Thank you very much. That's a very helpful statement you've made.

Some people make the claim that past Federal housing policy has been essentially a series of failures, one program after another found wanting and shut down, they claim.

In what ways is that a fair or an unfair assessment? What are the most venerable legacies of past Federal housing policy on which a new housing policy can be built? Any one of you please take off on that.

Mr. LOZA. Let me address that, Mr. Chairman.

Speaking from a rural perspective, I think we've seen a Farmers Home Administration program for the rural areas evolve over the years and it's evolved after careful deliberation by the Congress, by housing advocates, by different interests, developers and nonprofit corporations.

It's evolved into a system of field offices all across the country, accessibility to the public, and so on and so forth.

There can always be criticisms of systems in place, but I think overall anyone would agree that in the delivery of housing for rural areas the Farmers Home has been a very, very successful program.

I think that any attempts to begin to tinker with a system that's worked and a system that's been put in place over a long number of years would be a terrible mistake.

The other program that's worked very, very well in the rural areas has been the public housing program. Even though not a lot of public housing goes into rural areas, when it is developed in the rural areas, it tends to be well-kept. In many cases we hear from people across the country that it's usually among the best housing in those rural communities.

So I guess there will always be criticism, but from the rural perspective, both a Farmers Home Administration and a public housing program can't be labeled anything but successful.

Senator CRANSTON. Any other comments?

Mr. WELDEN. May I respond to that? I think when I first got involved in housing in the early 1970's we were dealing with the 236

and the 221(d)(3) program and the problem with those programs was that the subsidies were not deep enough. So we came to the section 8 program which solved the problems of the 236 and the 221(d)(3) because it had a 100 percent subsidy. But then we got so far in the other direction that Congress decided it was too expensive.

So I think that's been the two extremes. I think it's just been a question of money in either case. In one case there wasn't enough money and in the other case Congress felt that it was too expensive.

So I think what we've got to do is find some balance between those two in order to have an effective program. So I don't think it was a failure of the program. I think it was a failure of the level of subsidy.

Senator CRANSTON. Ms. Johnson.

Ms. JOHNSON. I'd like to respond to both your first and second questions.

As far as pension funds are concerned, about the middle to late 1970's a lot of time was spent trying to encourage the pension funds to invest in mortgages and a lot of hearings were held and it seems like the outcome of that was that many of the pension funds then decided to buy Ginnie Mae securities. Well, that limits the kind of mortgage that they are buying.

I believe that it would be helpful to encourage them again to re-invest in mortgages, only this time to be a little more expansive in the investment, understanding that they must be prudent in their investment.

Following all of this conversation, there was the creation of the CMO, the mortgage obligation. That instrument is still alive and well. That instrument can be used to pool many different mortgages, whether they're multifamily or single family, FHA-insured or what have you, put into an obligation and then sold to the pension funds. Very little of that is being done right now.

In response to the second question, I'd like to say that a lot of attention I think was given to even developers to get involved in public-private partnerships. In all of the projects that I mentioned in my testimony, at least 70 percent of the dollars were private. The Government alone cannot handle the housing problem, but if we can encourage the private sector in a manner that makes it both sensible, reasonable in the bureaucracy, and profitable, I think that would be helpful.

Senator CRANSTON. Thank you very much.

One final thing I wanted to ask you about is this matter. We are now wrestling in Congress with the potential loss of federally assisted low-income housing with the expiration of 20-year contract restriction of rents and tenant income eligibility. The new HOP program could simply replicate that problem if state and local governments use HOP funds to assist housing that will remain available to the poor for some specified period only, like 20 years or less.

How serious a problem could that become and, more importantly—because obviously it would be a serious problem—more importantly, how could the problem be remedied while still giving States and localities flexibility in program design?

Mr. SCHECHTER. Given the legal rights of property owners, as I have seen them laid out by the various task forces that have worked on the current problem, I don't see any way around it. In other words, as long as we have—even where there's a so-called private-public partnership with the Government perhaps providing subsidy or even guaranteeing loans and providing subsidy, the property rights belong to the private owner. And whatever comes in the way of increased market values—and on that basis they have a right to ask for higher rents or they have a market at higher rents. I think fundamentally, given our property system, as long as we have that type of ownership—and we will probably have it—I don't think there's any way around it and the answer has to be public ownership wholly because I think the private-public partnership is a euphemism. There is no public ownership. The Government doesn't get stock in partnership with a private owner. It's just that the Government puts up some money.

Senator CRANSTON. Any comments on that?

Mr. WELDEN. Could I respond to that?

Senator CRANSTON. Yes.

PREPAYMENT OF MORTGAGE

Mr. WELDEN. I really disagree with that gentleman's comment. We take a strong position about the prepayment issue because of the basis under which we went into those deals, but that's one segment.

The other segment is new deals that are done from here. If you tell me going in that I can't prepay my mortgage for 40 years or you tell me what the rules are, that's fine. Then I'll make the decision to be involved in the program or not. And there are plenty of people I think who are willing to be involved in the program. We are primarily in the management business. We manage 10,000 units. That's our main focus. Now you've got to make some money developing it and you've got to make some money from the ownership, but as long as there's a reasonable return, I think there is a segment of the private industry that will produce that housing for you, but tell us what the rules are going in, give us a fair return, and then if you lock us in for 40 years or 30 years or whatever, and we understand it going in, then nobody has got a right to complain.

I think the private sector will build that housing. It doesn't have to be all public.

Senator CRANSTON. Any other comments?

Mr. GODIN. Senator, I'd like to basically agree with what Mr. Welden is saying, that in the past prepayment has become a huge issue because there wasn't a foundation or ground rules laid down in the beginning for private industry and I believe that with any new program coming on, as long as those rules are laid down, that private industry can adjust to that a lot better than after the fact.

Senator CRANSTON. Yes, Henry.

Mr. SCHECHTER. It isn't a matter of private industry adjusting. Looking at it from a governmental point of view, to get the greatest cost-effectiveness, even if the term becomes 40 years, at the end of 40 years, the increased property value has to be recognized and the rents. Whereas, to the extent that you have public ownership



2300 M STREET, N.W. / SUITE 250 / WASHINGTON, D.C. 20037 / (202) 785-8888

Testimony of Charles V. Welden, Jr., President
National Leased Housing Association

Before The Housing and Community Development Subcommittee

Senate Committee on Banking, Housing and Urban Affairs

September 28, 1988

My name is Charles V. Welden, Jr. I am a partner in the Birmingham, Alabama law firm of Welden and Harbin, and president of the National Leased Housing Association on whose behalf I testify today.

NLHA takes pride in its unique membership with both public and private sector representation. Among our over 700 organizational members are public housing authorities, state housing finance agencies, non-profits, private developers, investment bankers, syndicators and professionals. Although our membership is diverse, we are uniform in purpose - providing affordable rental housing for low and moderate income Americans.

Because of our interest in rental housing, we will focus our testimony on the portion of the staff concept papers directed to rental housing in particular. These are basically the provisions creating the HOP-HOME program, as well as your discussion of the new rental credit concept to replace certificates and vouchers.

HOP and HOME

At the outset, let us state that NLHA strongly favors the housing block grant mechanism, assuming as it does that the federal government must have a continuing and increased presence in making significant funds available for low income housing. The block grant mechanism is a basic recommendation of the Rouse-Maxwell Task Force, which this committee chartered; we strongly favored the concept in our submission to the task force. We also endorse the \$3 billion funding of the block grant program recommended by the Task Force. This amount would keep the total

funding for all housing programs well within 2% of our total federal spending, certainly a reasonable portion of our national income to be spent on this basic need.

The HOP-HOME mechanism embodies the block grant program in that local communities can issue the HOP certificates basically for such housing purposes as they choose. This being the case, we are not convinced of the need to establish the rather intricate mechanism of requiring localities to issue certificates of indebtedness and further creating a new governmental entity to purchase them. Many states and localities will face difficulty in administering a block grant program as such. Why complicate it further with the HOP-HOME method of funding? Obviously the sponsors of this proposal view that this mechanism would work smoothly and not cause undue burdens to the local community. We, who have worked closely with housing programs for the last twenty years, doubt that things will work so well. The teaching of Justice Oliver Wendell Holmes, that a page of history is worth a volume of logic, certainly applies here.

We do have several suggestions which we hope will be considered in structuring the block grant legislation:

First, we note that home ownership is a permissible block grant use. In view of the fact that the median income of renters is exactly half that of owners, we question whether scarce federal funds should be made available under the block grant program for home ownership. In any event, if block grant funds can be used for home ownership, then we believe that this should not be done on a grant basis, but in the form of a slow second loan recaptured on resale. Of course, in the case of multifamily housing, a locality should generally not be permitted to make grants to private developers but instead employ the same slow loan mechanism.

On the subject of home ownership, however, NLHA does generally endorse your suggestions concerning liberalized down payment provisions, utilizing 401(k) plans and the other creative ideas set forth in the paper. In addition, we strongly favor the continuation of the home owner's ability to deduct mortgage interest and property taxes on the federal tax return.

Second, we have serious questions as to whether assistance from a locality utilizing block grant funds would normally be sufficient to produce needed rental housing. To assist in the preparation of this testimony, NLHA gathered together a committee of experienced low income housing developers, financiers and attorneys who tried to develop models utilizing block grant funds alone. There was unanimous agreement that normally the block grant funds could only produce rental housing in conjunction with the low income housing tax credit, or similar assistance under the tax laws. Accordingly, in structuring the block grant mechanism, Congress should be careful not to impose restrictions

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that would cause a project to be ineligible under the tax credit or future tax laws. Thus, any targeting requirement for low income occupancy under the block grant should permit (but not require) the targeting required under the tax credit, namely 20% of the units at 50% of median or 40% at 60% of median. Of great importance, Congress should not believe that because it has adopted a housing block grant program, no further tax assistance, such as the low income housing tax credit, is necessary. The programs must work in tandem.

Third, on the subject of income targeting, maximum flexibility should be left to the local community--instead of imposing severe low income targeting restrictions. Some communities will may feel that the best use of block grant funds would be to provide shallow assistance for the development of housing for middle and moderate income families. Such housing could not only assist these families but also families assisted under the new rental credit program could occupy units therein. A community may find this approach far more sensible than utilizing its limited dollars for deep subsidy programs to house low income people who could be otherwise housed in existing structures. The temptation to deeply target is an easy one, but the result could run counter to the housing needs of the entire community.

Fourth, although each community should be free to fashion its own program, HUD should develop program models which could be replicated throughout the country. This service would be greatly appreciated by many communities new on the housing development scene. Also, the establishment of programs with basic similarities would facilitate the work of national developers operating in more than one community. Our task force developed some interesting model programs, such as utilizing block grant funds to guarantee that the interest rate on a "low floater" loan would not exceed a certain level. At this time, such a program could assure tax exempt financing at a very low rate for multifamily housing and give some assurance that the loan rate would not rise prohibitively over time. We are sure that several other model programs could be developed by HUD, working in conjunction with knowledgeable industry sources.

(Fifth, we believe that many local housing authorities have meaningful roles to serve in the program. We note with concern the provision on page 20 of the concept paper that an issuing agency must be a public agency responsible to the chief executive of the state or locality, because in many instances, the local housing authority may be responsible to the City Council or a number of appointing sources. If a city government wishes to have the public housing authority administer the program, it should be permitted to do so. In any event, a city should have to certify to HUD that it has submitted its housing strategy to the local housing authority and include the authority's comments with its submission.

In this regard, we support the ten percent set-aside of the funds for non-profits as set forth in the concept paper, assuming that non-profits established by local housing authorities are included. We also question the staff paper concept of limiting public housing development funds to 25% of the city's total. In most cases a city would choose to use far less of its funds on traditional public housing but we question the wisdom of an arbitrary cap.

Sixth, we question whether the Home Corporation is needed to guarantee the principal and interest on securities backed by pools of qualifying mortgages for rental housing. At this time, HUD's program of co-insured loans is providing a ready source for multifamily financing. Under the co-insurance program, the private sector bears a significant risk of loss, an element which would not be present under the 100% federal guarantee.

We do see merit in a federal pool insurance concept, but believe that this can be done within HUD's existing organizational framework. However, we also question why a locality should have to pay a fee for issuing HOP certificates to support the guarantees of the Home Corporation on mortgage loans. The fee would only reduce the amount available to local communities to supply needed housing, and, as above mentioned, would go to an unnecessary entity.

Seventh, Congress must recognize that a housing block grant is not a breeder-reactor of funds. In other words, block grants should not be expected to cover such existing programs as the public housing operating subsidy; separate funding must be provided for these programs.

The Preservation Issue

Although the staff concept paper addresses the need for HUD to establish a new office concerned with the preservation of the existing housing stock, it is apparently not the intent of the Committee to address the thorny issue of limitations on the owner's right to prepay in this legislation. This is very unfortunate, as the solution in the Emergency Low Income Housing Preservation Act contained in the Housing and Community Development Act of 1987 was for two years only and expires on February 5, 1990. Accordingly, Congress must address this issue in 1989. We question whether Congress can pass two pieces of major housing legislation in one year, and feel it is inevitable that the two issues will be combined in one piece of legislation.

Throughout the staff paper is the concept that there must be full and complete participation of the private sector in the new block grant program. We applaud this policy. Unfortunately,

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many in the private sector feel that the government has welched on its obligations by abrogating the right of prepayment on Section 221 (d)(3) and Section 236 projects. If we want private sector participation there must be reassurance to private sector participants that the government will keep its word once given. That assurance must come before the new program starts.

On the other hand, Congress must not deal with the preservation issue by simply stating that a city might utilize some of its block grant funds to buy out the owner of existing properties. These limited funds should be used to increase the housing inventory. In order to retain low income ownership for the existing Section 221(d)(3) and Section 236 projects, Congress must develop some other source of funding.

However, a community must be aware of the future preservation issue in awarding block grant funds to developers and structure its awards accordingly. We have no problem with prospective prepayment restrictions, grant recaptures, deferred interest and other measures to assure long term low income occupancy.

The Rental Credit Program

We applaud the staff paper concept of continuing to utilize existing rental housing to serve low income Americans through a rental assistance program. Equally sensible is the desire to end the debate between the advocates of certificates and vouchers, as both programs are based on the concept of utilizing existing housing. We do make the following comments to the constructive suggestions contained in the staff paper.

First, concerning fund allocation, we believe that a satisfactory mechanism has been established under the present certificate program. As at present, allocations should be done by HUD field offices which are in place and familiar with local needs. Separate allocations should be earmarked to 1) replace expiring annual contribution contract for coordination with the HOP program, 2) for use with housing preservation and 3) to increase the present amount of existing housing assistance.

Second, we endorse the concept of allowing rental credits to be attached to the unit. By permitting the community to choose, we will encourage moderate to substantial rehabilitation of existing units since a subsidy contract attached to the unit provides solid security for the necessary financing. Generally, we favor some cap on the localities ability to attach rental credits to the units, such as the present 15% of the communities' total allocation. However, a community, with HUD's approval, should have the right to exceed this figure as under present law.

Third, we do question the restriction to a five-year term. The present certificate program does allow for a fifteen-year authorization period. Such longer term is most important if certificates can be attached to the units to secure financing so as to coincide with the fifteen-year low occupancy period under the low-income housing tax credit program.

Fourth, we strongly approve the general applicability of the 30% limit on rent/income ratio under the certificate program. However, we do believe that flexibility is needed on the local level to permit some tenants who wish to pay a higher ratio of income (subject to affordability) to be able to do so. Thus, we would put no cap on the percentage of units that could exceed that total. However, to assure that in practice there would not be too many cases where tenants pay over 30% of their income for rent, we would maintain the flexibility under present law which allows PHAs to exceed FMRA by up to 10% in 20% of the cases. In such instances, the family would still be paying 30% of its income for rent with the PHA paying the difference. If after using these exception rents, over ten percent of the families receiving assistance from the PHA are paying over 30% of their income for rent, we recommend that PHAs be required to submit a year-end report to HUD justifying such exception.

We do note that the staff concept paper calls for alternative fair market rents at the locality's discretion. However, it is stated that these rents must be at no cost to the federal government. If such is the case, we do not see how any meaningful alternative rents can be developed and it is best not to include a concept that just can't work.

Fifth, local housing authorities and other local administering bodies have done an excellent job under the present Section 8 certificate and voucher programs. We applaud this recognition in the staff concept paper that their role should continue at a fair and reasonable administrative fee.

We are in the beginning stages of a process which will probably last the better part of two years. Accordingly, as we all get deeper into the legislative process, NLHA will be offering more specific comments and refinements to our suggestions, especially in the area of rental credits. Meanwhile, we congratulate you on your initiative, and thank you for the opportunity to appear here today. NLHA takes pride in its role of having helped shape every piece of low income rental housing assistance legislation for the last two decades, and look forward to continuing this tradition with the National Affordable Housing Act.

as home owners—I'm a home owner and my whole generation has become wealthy because we bought homes some time shortly after World War II and our payments have remained low because since then we've had inflation and we will have cheap housing, and public housing provides the same benefit for the Government. So it isn't just a matter of term and prepayment and whether somebody sees the entire 40 years through. It's a matter of who gets the benefits of the increased value.

Senator CRANSTON. What do you feel we should do about the problem we face right now with the prepayment problem looming?

Mr. SCHECHTER. With all legal talent that's gone into it, I will not venture a solution.

Senator CRANSTON. I thank you all very much for your very helpful testimony today and for all others who have been present who are interested and been involved in our effort.

That concludes this series of hearings, but we will be in touch with you all I'm sure in the future. Thank you very much.

[Whereupon, at 12:25 p.m., the hearing was adjourned.]

[Response to written questions and additional material supplied for the record follow:]

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRANSTON FROM
DANIEL B. GRADY

The National Advisory Council
of HUD Management Agents

1915 Moreno Boulevard
San Diego, CA 92110

A. Congress is now wrestling with a potential loss of federally assisted low income housing as 20 year affordability restrictions expire. How do we avoid replicating that problem in a new housing policy?

Answer: Congress and HUD must state clearly their intentions. Owners should know how long they are expected to operate their projects under restrictive covenants. Contract terms should not be changed unilaterally. In California for instance, owners willingly participate in the CHFA programs even though they knew they could not prepay their 40 year mortgages.

B. How can we ensure that federal housing assistance will provide us with affordable housing for a long term?

Answer: By clearly stating the government's expectations when contracts are initially negotiated or programs developed. In order to attract owner/developers, sufficient incentives should be provided. For instance, cash return might be indexed, tax incentives committed and provided for the long term and assisted contract renewals guaranteed.

C. Expand on reasons for favoring centralization of authority over policy and negative effects of current HUD structure.

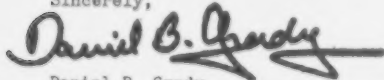
Answer: Currently there is no coordinated policy covering all HUD's programs. Public housing funds, for instance, should be allocated to complement rather than compete with assisted housing programs. All housing production programs such as private non-subsidized, private subsidized, non-profit, Public or specialized housing should be monitored and reviewed together as to their impact on a communities housing supply. Thus, over-building or extreme housing shortages might be avoided.

The present HUD structure diffuses authority and responsibility among several Assistant Secretaries. Further compounding the problem in recent years, neither the Secretaries nor the Under Secretaries have provided the leadership necessary to resolve disputes. For some time the General Council was, in fact, making policy. The Assistant Secretaries were generally unable or unwilling to defend their programs from OMB's attacks.

It is hoped that the position of Under Secretary of Housing could be filled by a person who would have the experience, knowledge and leadership qualities necessary to formulate policy and insure its' implementation.

Should you have any further questions, please do not hesitate to call.

Sincerely,



Daniel B. Grady
Chairman

DBG:js



December 15, 1988

The Honorable Alan Cranston
Chairman
Subcommittee on Housing and
Urban Affairs
535 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Cranston:

Enclosed you will find responses to specific questions asked in the October 21 letter of Lawrence Parks. (I apologize for being so slow in providing these responses).

I want to thank you for the opportunity to answer these questions and to appear before your Subcommittee last fall.

I hope you and the Senate Housing Subcommittee will be able to spur the passage of much needed new housing legislation.

Thank you for your enlightened interest in housing poor Americans.

Sincerely,

Daniel J. Wuenschel
Executive Director
Cambridge Housing Authority

and

Past President
of
Council of Large Public
Housing Authorities

DJW/bmm
Enclosure

PUBLIC HOUSING

1). Experience in several geographic locations throughout the country tells me that the continuation of the traditional public housing program with appropriate levels of funding going directly to the public housing authorities is essential for several reasons:

a). Even when public housing's upper income limit was 80 percent of median, it has always served the poorest, housing needy citizens. This constituency is seldom, if ever, politically powerful and often very unpopular with the general citizenry. Elected officials are often dissuaded from serving this very poor population in favor of a "tidier" segment of the population - namely moderate income citizens whose political clout is greater and whose presence as neighbors is less controversial. Although not insulated from such controversy, public housing authorities are at least one remove away from such political pressure.

b). The above observation/argument has racial implications as well as economic ones.

c). Many of the block grant notions and formulae are quite sophisticated. In small cities and towns the traditional public housing delivery system is understood and has been applied successfully for years.

2). We are relieved at your clarification of the "special needs" thrust in the concept papers. Indeed, initiatives for "special needs" populations within public housing are appropriate and are either underway or entrenched in many public housing authorities. In our own authority for example, the Cambridge Housing Authority has set aside apartments for the mentally retarded, mentally ill adults, headstart classrooms, day care centers, tutoring and training programs, and tenant council offices.

I don't believe that legislative change is required for such uses, but regulatory change would be most helpful, particularly in two areas.

a). HUD's cost containment "Guidelines" frequently prohibit an adequate retrofit to apartments for such uses which often require strict licensing requirements.

b). When a PHA "dedicates" an apartment for such as the uses denoted above, we more often than not lose operating subsidy for such units and are urged to collect rents from the user/providers.

PUBLIC HOUSING TARGETING

CLPHA believes that local communities should have the option of permitting 25 percent of its public housing units to be occupied by households between 50 and 80 percent of area median income.

Until 1981 eighty percent of median was the prevailing upper income limit and yet, in urban areas, the vast majority of those served were 50 percent of median and below. I believe that this trend would have continued without the restriction in the '81 Act.

The negative consequences of the current targeting are, at least, the following:

- a). Fifty percent of median as a maximum income further segregate the poor.
- b). It reduces the political clout of the public housing constituency by eliminating many of the working poor and places in this group a resentment of "welfare people" getting housing assistance when they can't.

I think the experience of the Commonwealth of Massachusetts' state funded public housing is instructive and positive. In this high housing cost state, the Commonwealth's substantial state funded public housing program serves people up to approximately 65 percent of median. This broader constituency coupled with a recognition of high Massachusetts housing costs sustains considerable political support for public housing.

"ONE STOP" AGENCY

You will get no argument from this writer that HUD can stand a heavy dose of "invigoration". This is especially the case in the area of development where knowledgeable staff have been decimated over the past decade.

It is the opinion, I believe, of many "public housers" that our program has long suffered from an unwarranted low status within the HUD organizational structure. This phenomenon led to a CLPHA proposal several years ago that the Federal government consider establishing a separate agency to oversee the public housing programs. I believe that such action still makes sense.

In short, the establishment of a "One Stop" agency or HOME Corporation within HUD sounds like it might cut through the tendency to regulate new programs to death and provide a new prospective on the urgent need for increased housing production.

SUCSESSES OF PAST HOUSING POLICY

I don't believe that past federal housing policy has been a series of failures. Some programs, like HODAG, definitely are flawed, but the federal housing policy overall, in my opinion, has been sound. Such programs as public housing and particularly the programs that serve a broader range of incomes like Section 202 and the FMHA programs have been very successful.

Where we have failed in federal housing programs has been in the administration or implementation of them. For example, the Section 235 and 236 programs were good housing vehicles which provided an upward housing mobility ladder for the poor, particularly public housing tenants. Unfortunately, 236 made little or no provisions for reserves and the 235 program was besmirched by some unethical builders/realtors who were not adequately controlled by the government. The program concepts, however, were good ones. Public housing gets a much undeserved bad rap. Over 90 percent of the public housing units built over the past fifty years continue to provide decent low rent housing to the poor in hundreds of communities throughout the nation. The 4 to 6 percent public housing units that have failed are almost exclusively in configurations where we as a society and government tried to "warehouse" people in overly dense, no-amenities projects which were/are totally out of scale with their surrounding communities. That's bad administration not a bad concept. Similarly, many of the good federal housing policies and programs have foundered because of our society's inability to cope with racism, not because of inherent policy flaws.

I would suggest that any new housing programs should build on the public housing (serving a broader range of incomes) and the FMHA programs past success and longevity.

NEED FOR FEDERAL HOUSING ROLE

The federal government has a definite responsibility to provide the elements of basic human decency for its less fortunate citizens. Programs which provide basic income supplements, food, health care and housing are major parts of this federal responsibility.

A strong federal role in the provision of housing assistance is required for two essential reasons:

- 1). The cost of the vital deep subsidy programs necessary to house the very poor is too great a financial burden for states and municipalities. Only the federal government's revenue stream can realistically cover this cost.
- 2). History has shown either an inability or a lack of resolve on the part of states and municipalities in dealing with the issues of race which so often accompany the provision of low income housing.

I have previously responded to the notion of one large block grant for all housing needs with the states and localities deciding how such a fund is used. For the reasons previously stated, I feel that such a system would not give poorest, neediest citizens a fair share of such funds.

While some communities have initiated good innovative programs particularly in the areas of development and financing, the National Housing Task Force agrees that no block grant proposal can serve very low income people without federally funded deep subsidies.

FUNDING

To claim that there is no need for additional funding for housing is akin to a critique of the naked emperor's attire. To stem the tide of: 1) increasing homeless families, 2) expiring use restricted units, and 3) the simple lack of rental housing in several geographic areas, while at the same time preserving the nation's public housing stock, will, I believe, require a federal expenditure level three times greater than this fiscal year's. While such a funding commitment seems improbable, the notion of "amalgamating" all funds from existing low income housing programs is flawed and unfair. First, there really are only two existing HUD funded low income housing production programs: Section 202 and public housing. Why should any "amalgamating" occur at the expense of these programs? Especially public housing which is the only program which serves the poor? Such action will merely deplete the already pitifully narrow public housing pipeline for programs that will serve moderate income citizens while excluding the poor from their current meager right.



LOCAL INITIATIVES SUPPORT CORPORATION
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 PAUL S. GROGAN, PRESIDENT
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November 2, 1988

The Honorable Alan Cranston, Chairman
 Subcommittee on Housing and Urban Affairs
 525 Dirksen Senate Office Building
 Washington, D. C. 20510

Dear Senator Cranston:

Thank you for your request of October 21 for response to several questions concerning the September 22 hearings on the National Affordable Housing Act. I hope the following is helpful to you.

"One Stop" Agency

It will be imperative that the various HUD offices responsible for different elements in the housing production process -- including HOP funds, FHA insurance, and technical assistance/capacity building support -- be closely coordinated. Such coordination is often difficult to achieve in practice. Someone very close to the top of HUD must have both the responsibility and the authority to resolve conflicts among offices and manage the policy/program development process. We are not prepared to say at this time whether this coordination function would require a separate HOME Corporation, or whether establishing an Under Secretariat for Affordable Housing Production would work just as well.

We are, however, always hesitant to recommend the creation of new organizations, including the HOME Corporation, without very careful consideration. The temptation to create new organizations is both strong and understandable, even if mostly as a symbol of renewed commitment to addressing housing problems. But new organizations usually take a long time to start, and are not themselves always the answer. It is our observation that new organizations work best when organized to perform clearly defined functions in addressing specific identified problems, rather than in response to a broad recognition of the housing crisis. Accordingly, a new HOME Corporation should be established only if its functions are clearly defined, of great importance, and if present organizational structures are inadequate to perform them.

Development: Technical Support for Nonprofits

You have asked for our perspective on whether technical assistance and capacity building support for nonprofit and other "new wave" developers should be provided by HUD or a quasi-public corporation such as HOCA.

In our view, the threshold issues are what kinds of assistance should be provided and through what kind of delivery system. We believe the priorities should be to: (i) assist nonprofits to bring projects to the point where they are ready for development; (ii) provide core operating support grants for nonprofits; (iii) train staff and board members of nonprofits; and (iv) assist nonprofits to establish community housing strategies and business plans to implement such strategies. In addition, state and local coalitions of public, private, and community institutions need help establishing new partnerships and other housing delivery systems.

The growing network of private intermediary organizations is the appropriate vehicle for delivering this assistance. This network includes: (i) national nonprofit intermediaries, such as LISC, the Enterprise Foundation, Neighborhood Reinvestment Corporation/NHSA, and Housing Assistance Council; (ii) national trade associations of state and local government agencies; and (iii) regional, statewide, and local partnerships, intermediaries, and technical assistance organizations. These entities are already providing some of this assistance, although funding constraints limit the scale and scope of what they can do.

It would be a mistake for any federally supported entity -- within or outside of HUD -- to supplant or duplicate this network. Instead, HUD or a HOCA-type entity should support this network on a matching grant basis. In other words, federal funds should be provided only to those private intermediaries that raise nonfederal funds for the proposed assistance activity. The matching requirement would (i) enable federal funds to go farther and (ii) ensure that only organizations with sufficient legitimacy and commitment to provide matching funds are supported.

We believe that either HUD or a quasi-public corporation could successfully oversee this kind of program. In either case, an advisory board composed of representatives from community-based, other nonprofit, and profit-motivated developers, intermediaries, states and localities, the business and financial communities, and HUD could direct the program. Advantages of having HUD (rather than a quasi-public corporation) oversee the program are that: (i) a quasi-public corporation would be more tempted to provide assistance directly instead of through other, existing intermediaries; and that (ii) the purpose of a new

quasi-public corporation might be confused with that of the Neighborhood Reinvestment Corporation. It would, however, be possible to establish a quasi-public corporation with adequate safeguards against these dangers.

Success of Past Housing Policy

We believe that federal housing programs have had a mixed track record, with each program having both strengths and weaknesses. Half a century of experience has taught us important lessons for the future, many of which the staff concept papers reflect.

In our view, successful housing programs generally: (i) are flexible enough to respond to different local needs and resources; (ii) involve the public, private, and community sectors in new, locally driven housing production systems; (iii) target resources primarily to low-income people while retaining some flexibility to serve some moderate-income people; (iv) foster the stability of distressed low-income neighborhoods; (v) use public funds mostly for long-term investment in low-income housing as a public or community asset; (vi) use scarce funds efficiently by attracting increased support from other public, private, and charitable partners; and (vii) produce a significant number of housing within a reasonable period.

Every major federal housing program has met at least some of these success tests, and each of these tests has been met by at least some programs. Moreover, these programs have produced substantial housing opportunities for many people, an achievement that is not diminished by the considerable work yet to be done. In these respects, federal housing programs do leave a legacy of success. At the same time, however, no federal housing program has met all of these tests, and their failure to do so has undermined support for them. We believe that the National Affordable Housing Act presents a unique opportunity to establish a program that combines all of these elements of success.

Finally, the greatest problem facing federal housing programs today is that housing has become too low a priority in the competition for scarce federal funds. The undeniable fact that housing the poor costs real money means that Congress will not support these programs unless it recognizes the housing crisis as a national priority. If we can restore our national will to provide decent, affordable housing for all Americans, I believe that problems of program design can be solved with relative ease.

Need for Federal Housing Role and Funding

Housing assistance requires federal support because insufficient availability of decent, affordable housing is a

national problem, threatens the social fabric that binds our country together, and can be solved only with the active support of the federal government.

The housing problem has reached crisis proportions over the past decade in large part because the fundamental balance between housing supply and demand in most local housing markets -- and especially in the low-income/low-cost end of these markets -- has shifted dramatically. Homelessness is, of course, the most visible sign of this imbalance. But homelessness is indicative of a much larger, less apparent, and more damaging problem. Mortgage interest rates have risen sharply, especially in real (i.e., inflation-adjusted) terms. The existing low-income housing stock is aging and deteriorating, especially in distressed neighborhoods. Higher energy and liability insurance costs have driven up operating expenses, causing some landlords to abandon properties. The number of households has risen, driving up the number of housing units needed. With demand exceeding supply at the top end and mid-range of the market, fewer units are filtering down to the lower end.

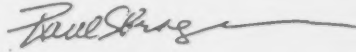
The result is that housing costs have been rising substantially faster than incomes, causing affordability problems even for middle-income households, to say nothing of low- and moderate-income people. Homeownership, perhaps the central image of the American dream, has faded out of sight for many. Among the poor, even rental housing is hard to find, as the number of low-income renters steadily rises while the number of affordable rental units drops. Many low-income neighborhoods are losing affordable housing to either gentrification or decay in a process that often spirals out of control. And, a surprisingly large number of people cannot afford any home at all, or are only a missed paycheck away from homelessness.

Clearly, low-income housing is a national issue that requires a national commitment. From budgetary, political, and programmatic perspectives, it is neither likely nor appropriate for the federal government to bear the entire responsibility for funding and carrying out new housing programs. Over the last decade, a broad range of other institutions -- states and localities, CDCs and profit-motivated developers, lenders, nonprofit intermediaries, and foundations -- have joined together to form creative and productive partnerships. These local initiatives are the basis for a new housing production system that is more effective, efficient, and responsive to local needs than previous federally driven efforts. But whatever we do to make the process more cost-effective, subsidies will still be required to make production of low-income housing financially feasible. Unfortunately, for the most of this decade the federal government has been the missing partner -- and it is the only partner with the financial capacity to make substantial production of low-income housing possible.

Conclusion

This concludes my response to your questions. I would be happy to provide further information.

Sincerely,



Paul S. Grogan
President

HAC

HAROLD O. WILSON
Executive Director

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November 1, 1988

The Honorable Alan Cranston
Chairman
Subcommittee on Housing and Urban Affairs
535 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Cranston:

The Housing Assistance Council is pleased to respond to the questions remaining unasked from the September 22nd hearing. As I indicated at that time, HAC's focus is on rural housing and these additional comments concern the efficacy of proposed programs in rural and small town America.

Successes of Past Housing Policy

In 1979, Farmers Home Administration housing activity resulted in the production, major rehabilitation or repair, and purchase of 132,000 units of low- and moderate-income housing. There were an additional 23,000 units of rental assistance utilized, 3,000 migrant farmworker units produced and 11,000 repair loans and grants made to elderly rural homeowners. Those figures illustrate a program that works: 169,000 units of low- and moderate-income housing produced throughout rural America by local builders, developers, and community-based nonprofits. The huge majority of federal funds supporting that effort were loan funds which are being repaid to the federal government on a monthly basis. The loss ratios in FmHA housing loan programs in 1979 were less than CitiBank. In addition, according to HAC's study, "A Home of Our Own", found the FmHA 502 program effective in three main areas: 1) the program serves poverty-level households; 2) the subsidy required declines steadily for most borrowers; and, 3) the number and percent of sample children in poverty decline. The FmHA rural housing programs were, and though greatly reduced, still are successful by any measure.

I pointed out elsewhere in my testimony that FmHA does not do everything that should be done in assisting low-income rural families achieve decent housing, and made some recommendations to expand program authorities to meet those needs. Those suggestions build upon the demonstrated success of the rural

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The Honorable Alan Cranston
November 1, 1988
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housing programs. HAC estimates that, in spite of the inflation since 1979 and budget cuts of nearly 55%, FmHA funds will produce about 55,000 units of new, rehabilitated and repaired housing in FY 1989.

The Public Housing Program in dozens of small towns and rural communities represent a success which far too often is not acknowledged. Admitted mistakes made in a few urban projects have so distorted the perceptions of public housing that hundreds of smaller communities around the country, offering sound, attractive, desirable housing units for low-income families are penalized. Unfortunately, budget cuts, excessive regulation, refusal to adequately fund maintenance and modernization and other obstacles, are placing even some of the best projects at risk. Yet no other housing program of any kind - public or private, federal, state or local, charitable or entrepreneurial - has come close to serving the needs of the low-, very-low, and no-income families living in public housing. Without the units provided by the public housing program, the number of homeless would without doubt greatly increase. The public housing program in rural America is a success which we should acknowledge and upon which we should build.

"One Stop" Agency

Without commenting on the HOME Corporation itself or on the programs and mechanisms it might employ, the basic "one stop" premise is sound, and for the reasons you suggest. The loss of talent from HUD over the past few years has left the agency without the career leadership, the ability, and the resolve to effectively utilize the program authorities that still exist. The new Secretary must have some device for attracting the kinds of people who will perform. Implicit in your second point about states and localities is the probability that a "one stop" agency would lead to a reduction in the confusion, delay, and red tape which those states and localities are convinced necessarily accompanies any Federal program. If in fact the HOME Corporation does deliver promptly, it will eliminate a major complaint about HUD housing programs.

FmHA currently utilizes, however, a delivery system very similar to that of the "one stop" agency which must be preserved. Virtually all programs for individuals are handled in one county office by the official who has the authority to approve the application or request. All other programs - multi-family housing, community facilities, water and waste,

The Honorable Alan Cranston
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etc. - are handled at the District Office level, and that District Director is the only FmHA official with which an applicant must deal. The Director, in turn, works with the state or national office if the situation so requires it. While this system has by no means solved all the administrative problems associated with program delivery, the "retail" approach of bringing the program to the user has reduced much of the tension between applicant and agency.

Need For Federal Housing Role

There are three essential Federal roles in housing, neither of which can be fully assumed by the states or local governments. First, the realization of the goal of providing decent, affordable housing to all Americans is clearly beyond the financial capacity of most, if not all, states. Of course, states must spend more than they now do on housing, but the bulk of the money will necessarily come from taxes collected by the Federal government.

Secondly, the Federal government must set and enforce certain fair housing standards. Discrimination along economic, racial, ethnic, gender and age lines are painfully obvious at the program delivery level. A Federal mandate fully enforced and accompanied by Federal monies will deliver housing to those for whom it is essential.

Finally, rural areas require a Federal delivery network because of the unique nature of rural problems. The FmHA delivery system mentioned in the above response address these problem which include remoteness, lack of resources, and a limited infrastructure. These rural conditions requiring a special delivery system are not unique to individual states and a Federal response indicates a recognition of rural characteristics and a commitment to the problem.

Funding

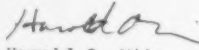
HAC believes that states and localities could play a larger role in designing and implementing housing programs, but for the reasons elaborated in the response to the previous question, it seems clear that unrestricted block grant programs would not result in housing for many of the groups that most desperately need housing. As for the assertion that enough is already spent on low-income housing assistance and it need only be aggregated into flexible block grants, it seems clear that the dramatic increase in the number of homeless, the spread of the housing crisis across various income groups, the dramatic

The Honorable Alan Cranston
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rise in the rate of cost overburden, and the stubborn rural problem of substandard housing occupied by over 2 million families indicate a problem much deeper than efficiency. It is the result of a cut of 50% in the FmHA programs and almost 90% in HUD activity. We need to adequately fund the FmHA programs and both find and improve the efficiency of the HUD programs.

Thank you again, Senator Cranston, for the opportunity to testify and for this second chance to elaborate on our views.

Respectfully,



Harold O. Wilson
Executive Director

HOW/crt



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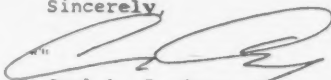
The Honorable Alan Cranston
Chairman
Subcommittee on Housing and Urban Affairs
535 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

As requested in the Subcommittee's letter of October 21, I am enclosing responses to the four questions enclosed with that letter relating to the proposed National Affordable Housing Act on which NHC testified on September 22nd.

We appreciate this opportunity to continue to present our views to the Subcommittee and wish once again to encourage your continued efforts toward enacting workable, affordable housing legislation.

Sincerely,



Carl A. S. Coan, Jr.
Legislative Counsel

CASC:cw

Enclosures

RESPONSES TO QUESTIONS POSED TO
NATIONAL HOUSING CONFERENCE BY
SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

Question 1.

As we pointed out in our statement, much of what is proposed for the HOME Corporation to undertake is already administered by existing entities within HUD. These entities have built up a body of experience and expertise which would only have to be duplicated if a new entity within HUD were established. HUD is now the "one-stop" Agency with which the states and localities deal on most federal housing matters. If better coordination is needed among the present divisions of HUD, that should be sought. HUD should be required to undertake a better coordination job and to report periodically on its progress. If it cannot coordinate among its present divisions, we doubt that coordination is achievable within the divisions of a HOME Corporation.

Question 2.

We disagree with the premise that past federal housing policy has "essentially been a series of failures." While it is true that many past programs have been shut down, it has not been so much that they have truly been found wanting as it has been the desire of a new Administration to do its own thing and justify that by denigrating the programs of the previous Administration.

As a consequence of these past federal housing programs, we now have over 4 million units of low and moderate income housing. One can hardly term that achievement a failure. True, there have been individual instances or program aspects which experience has shown needed improvement. Making these improvements does not mean that the basic programs are failures; rather, it should be viewed as a normal aspect of program fine-tuning.

Aside from the many millions of people who obtained decent shelter at a reasonably affordable price as a result of these programs, probably the most important lesson we have learned from the past 50 years of federal low and moderate income housing assistance is that decent housing for the lower

income can only be achieved when adequate subsidy is provided for that purpose. The private market place cannot provide lower income housing without that assistance. And, despite the growing involvement of state and local governments, none of them have yet provided any substantial deep subsidy of the type needed to assure decent, affordable housing for the very low income.

Question 3.

As pointed out in our response to the previous question, no state or local government has ever undertaken any extensive program of housing assistance for the very low income. The cost to date has proven to be beyond their means and sometimes their will. On the other hand, the federal government, with available revenue resources far in excess of those of state and local government, has been able, and we believe should continue, to devote sufficient resources to make a significant and substantial impact on meeting the housing needs of the lower income.

We also feel that decent housing for its citizens is a concern and responsibility of the nation as a whole. As has been demonstrated time and again, needs which are nationally pervasive can only be truly dealt with when the federal government moves to assure that all those affected have some reasonably equal opportunity to have their needs met. This does not mean that state and local governments do not have a role; they do. However, when they exercise that role independently and there is no basis for the other states or localities to act, the states that act will frequently find themselves at a serious financial disadvantage compared to those that do not act.

The needs met by the CDBG program and those met by the various federal housing programs are different, even though frequently complementary. If it is deemed important that there be an assurance that these separate needs are met, as we so deem, then combining their funding will not assure that. If we combined CDBG and housing, why should we not throw into the pot highway, transportation, school and other forms of federal assistance. While some might argue for that approach, we believe the vast majority will agree it is not the correct one.

Question 4.

The only way in which additional housing assistance could be funded, out of amounts now provided for other low-income housing programs, would be to terminate those programs. The families, elderly and others now served by those programs should be served by any new program and the likelihood of the cost of any such program being significantly less expensive is almost non-existent. In view of the limited amount of assistance now being provided, switching that present amount of assistance to a new program would not provide sufficient funding for any expansion of aid. The only way to achieve that result, without additional moneys being provided, would be to terminate existing commitments. While that raises serious legal questions, it also raises the serious question of what happens to those now being served. You cannot do something with nothing; unless you wish not to do anything.

August 12, 1988

NATIONAL AFFORDABLE HOUSING ACT
STAFF CONCEPT PAPERS -- DRAFT FOR DISCUSSION
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Subcommittee on Housing & Urban Affairs
United States Senate

Alan Cranston
Chairman

Alfonse D'Amato
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August 8, 1988

FRAMEWORK OF THE NATIONAL AFFORDABLE HOUSING ACT

The following is an excerpt from the written version of Senator Alan Cranston's speech to the National Housing Conference on June 8, 1988.

In the speech, Senator Cranston called for a national housing policy that recognizes the need for joint investment in affordable housing as a long-term national asset. Senator Cranston proposed four organizing principles for a new National Affordable Housing Act:

- * Build on what works;
- * Expand a system of responsive institutions;
- * Provide federal housing support that is not only understandable and straightforward at the national level but also very flexible so that it can be adapted to differing local conditions; and
- * Address the housing needs experienced by all Americans.

In this excerpt, Senator Cranston presents a schematic framework for the National Affordable Housing Act that emerged in the course of numerous discussions with housing leaders. The "staff concept papers" build on this framework.

I believe the bill should have three major components: one dealing with home ownership affordability, a second with affordability of rental housing, and a third with affordable housing for people who have special needs -- particularly the elderly, the handicapped, the homeless and low-income families with small children.

First, the bill should expand home ownership opportunities by offering help to those who are struggling to buy their own home, especially young and growing families who are working hard but cannot save enough for a downpayment. Declining home ownership rates are a serious concern, and the problem is intense in many regions. Valuable suggestions have been made by the Rouse-Maxwell Task Force, and we will be refining them in discussions with the

housing industry and other experts.

The bill should support production of housing for low and moderate income home ownership.

Housing affordability is also becoming a serious constraint on the ability of some American companies to attract employees. We should find ways to remove obstacles in the way of employer assisted housing.

Second, the bill should provide an adequate supply of affordable rental housing, through three important initiatives. One initiative must preserve the existing stock of affordable housing - which includes not only publicly-owned housing, but also privately-owned, federally-assisted housing and thousands of other low rent units that are threatened with loss. The potential loss of currently affordable housing will be the most insistent housing problem for Congress over the next decade.

The National Affordable Housing Act should provide for an effective reorganization of HUD to save as much of the existing stock as feasible.

In separate legislation, later in the year, the Housing Subcommittee will also seek to develop solutions to the problems of prepayment and default, drawing on the excellent work of several blue-ribbon task forces sponsored by the National Housing Partnerships, the National Council of HUD Management Agents and NHC.

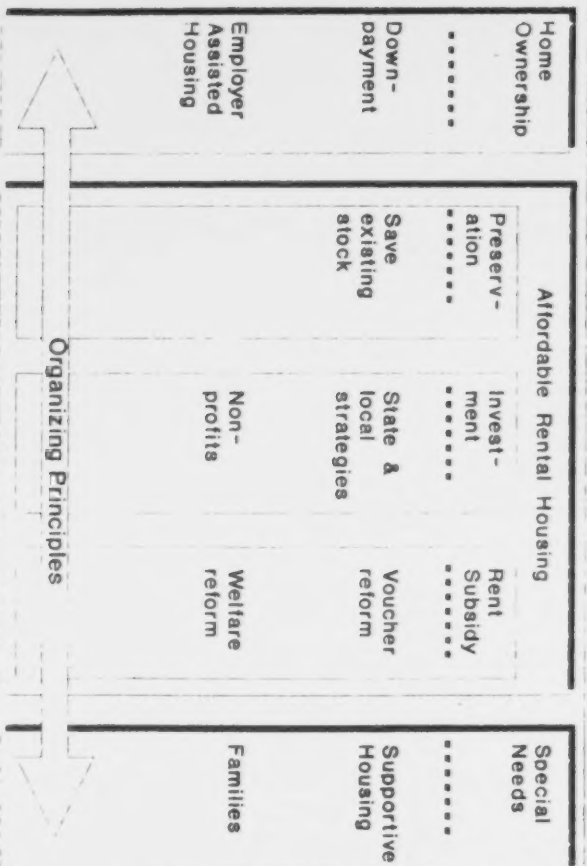
Another rental housing initiative should expand investment in rental housing that will remain affordable for the long-term -- housing that will rent at levels significantly below what the market would otherwise produce. A substantial portion of this housing should be reserved for those receiving low-income rental assistance, but it should also be available to moderate income families who could not otherwise afford adequate housing.

The bill should provide assistance for production and substantial rehabilitation in tight housing markets and also for acquisition of housing for low and moderate income use in markets that have a surplus.

National housing policy related to preservation of and investment in affordable rental housing should rely more heavily on the growing sophistication of state and local governments. And it should expand the capacity of the non-profit sector and other public-private partnerships.

The last of the three rental housing initiatives -- rental assistance for very low income people -- must, however, remain unambiguously a federal responsibility. We must also make it

National Affordable Housing Act Goals



easier for Congress to fulfill commitments to replace current certificates and vouchers when they begin to expire in 1990.

Too much energy has been diverted in arguments over distinctions between Section 8 Certificates and Vouchers. The bill should provide one revised form of rental assistance that gives states and localities more predictability and flexibility.

The bill should also provide better coordination between welfare and housing assistance to help families move out of poverty. And it should provide an effective strategy for ending the outrage of welfare hotels, in which large sums of public money are spent to house vulnerable families in squalor.

The third major component of the new bill should more effectively combine housing and services for those with special needs -- the elderly, the handicapped, and the homeless. And the bill should not ignore special needs of families with young children in public housing. For those with special needs, adequate housing must be supportive housing -- that is, not just bricks and mortar but also a package of appropriate human services, such as health care or homemaker services or job training or day care. The new bill should reorganize HUD into a department that at long last is committed to providing supportive housing for those with special needs.

Together, these various program elements should be designed to form a coherent, effective and sustainable policy -- a policy directed to the objective of joint investment in affordable housing as a long-term national asset, and a policy that builds on what works, expands a system of responsive institutions, simplifies federal support and keeps the housing needs of all Americans in view.

Finally, the new bill should provide the country with a clear set of housing goals for the remainder of this decade. I am not suggesting that the new bill needs to include pious phrases, which provide little guidance to specific action, or that the bill should include numerical targets, which soon become obsolete.

But the bill should provide a clear vision of what the country intends to accomplish with national housing policy by the year 2000. Even if budgetary pressures force the early steps to be smaller than many of us would prefer, we should know where we want to arrive, and we should know we are creating the right institutional framework to get there. I intend to make the development of such goals a focus of hearings and careful thought.

August 10, 1988

**NATIONAL AFFORDABLE HOUSING ACT
STAFF CONCEPT PAPER
FOR REVIEW NOT FOR RELEASE**

HOMEOWNERSHIP AFFORDABILITY

IN GENERAL

The National Affordable Housing Act will expand opportunities for homeownership, particularly for first-time home buyers and others who have not owned a home at any time within the last three years. The Act will do so by:

- * Making it easier to finance a downpayment;
- * Making FHA insurance available more equitably throughout the country;
- * Reducing downpayment requirements under FHA;
- * Extending mortgage revenue bond authority; and
- * Providing FHA insurance on the most widely used form of adjustable rate mortgage.

The Act will direct benefits toward three groups of potential home buyers:

1. those who qualify under current underwriting standards but do not have access to FHA because of the high housing costs in their area;
2. those who are having a hard time financing a downpayment; and
3. those who would qualify if financing were available with somewhat lower downpayments and interest costs.

Many people in this third group would prove to be sound credit risks, and they will be given new opportunities to earn homeownership.

FINANCING FOR DOWNPAYMENTS

The Act will help first-time home buyers and others who may have owned a home in the past but not for the last three years.

The Act will permit eligible home buyers to invest funds in their Individual Retirement Account (IRA) or 401(k) account for a downpayment. It will amend the tax code to permit funds in a tax deferred retirement account to be invested in an account holder's own home. This investment of funds in the account will avoid diminishment of the account's value before retirement.

Individual Retirement Accounts (IRAs). Individuals will be allowed to direct funds in their account to be used as a secured loan or an equitable interest in the home. An employee will be able to receive the same assistance from an employer sponsored/contributing IRA.

A new Section 408(e)(2)(C) of the Internal Revenue Code will provide that a home loan investment made by an individual retirement account for the purpose of acquiring or constructing a home used as a principal residence of the person for whom the individual retirement account was established, shall not constitute a prohibited transaction under subparagraph 9(e)(2)(A), which provides for loss of exemption where an employee engages in a prohibited transaction.

401(k) Plans. Employers administering a 401(k) plan will be required to offer participating employees the option of making an equity or second mortgage downpayment investment in a house that will be their principal residence.

Form of investment. The investment could take two general forms.

1. A second mortgage on a qualifying account holder's home could be purchased by the retirement account, thus making the mortgage loan proceeds available for a downpayment. The retirement account would own a promissory note secured by the account holder's home. The loan must provide for full amortization over not more than 15 years, beginning one year after the home purchase, at an interest rate no greater than the interest rate on the first mortgage. The outstanding principal balance on the loan would have to be repaid upon sale of the house.

2. An equity investment could be made by the retirement account in the account holder's home. The account would own a financial asset conferring rights to a percentage of the value of the home. That percentage of value, including any appreciation, would have to be paid back into the retirement account upon sale of the house or refinancing of the mortgage. The value owned by the retirement account could not be used as collateral on any second mortgage.

Limitations. The Act will provide several limitations to ensure that benefits go primarily to those most needing help in financing a downpayment:

- * The beneficiary must be the account holder or the account holder's spouse and the home must be the principal residence of the account holder;
- * No more than one-third of the funds invested for a downpayment shall have been deposited in the account within the previous 12-month period;
- * Neither the account holder nor the account holder's spouse shall have owned a home within the previous three tax years;
- * The sales price of the home shall not exceed 110% of the median sales price of homes in the area; and
- * No more than \$10,000 in retirement account funds -- or such higher amount that the Secretary of the Treasury determines is appropriate in high cost areas -- may be invested in the purchase of any one home.

MORTGAGE REVENUE BONDS (MRBs)

The Act will extend the Mortgage Revenue Bond (MRB) and the Mortgage Credit Certificate (MCC) programs through 1992. The MRB and MCC programs will continue to be targeted to moderate income first-time homebuyers and others who have not owned a home within the last three years. The MCC and MRB programs would be modified to target 95% of the proceeds of mortgage revenue bonds to first-time home buyers and those who have not owned a home within the last three years whose income is no higher than 115% of median family income. The MRB and MCC programs would be limited to homes not exceeding 110% of the median sales price of homes in the area.

FHA MORTGAGE CEILINGS

The Act will make FHA mortgage insurance more equitably available across the country by replacing the current national ceiling on FHA insured mortgages with ceilings that take into account state and sub-state differences in housing cost. This change will offer the benefits of FHA insurance to borrowers who meet FHA underwriting standards but who live in areas with high housing costs that make FHA insurance unavailable.

Currently, FHA availability is limited by national ceilings. Metropolitan Statistical Areas (MSAs) are given a ceiling that is 95% of that MSA's median sales price. Mortgages in a high cost area cannot exceed \$101,250, except in Alaska and Hawaii, regardless of the area's median sales price. As a result, FHA accessibility in high cost areas varies considerably.

The Act will require the Secretary, within one year of enactment, to provide FHA insurance on mortgages that do not exceed in value the higher of:

A national level established in accordance with current law (24 CFR 234) with annual adjustments for inflation, or

An area ceiling that equals 95 percent of the median sales price of homes within a designated time period for --

- * The state;
- * The multi-state metropolitan area; or
- * The county or metropolitan statistical area that the Secretary determines must be designated to provide fair access to FHA insurance for moderate and middle income homebuyers.

FHA DOWNPAYMENT REQUIREMENTS

The Act will permit qualifying home buyers to secure FHA insurance on a mortgage up to 97 percent of the first \$50,000 of a home's value and 95 percent of the value in excess of \$50,000. Under existing law, FHA insures 97 percent of the first \$25,000 of the home's value and 95 percent of the value in excess of \$25,000.

This change is justified partly to account for inflation that has occurred since the \$25,000 level was established in 1977 (P.L. 95-128) and partly to expand homeownership opportunities to households that could not otherwise afford it.

High down payment requirements constitute one of the most difficult obstacles to homeownership. FHA has partially overcome recent home price increases by raising its mortgage limits. Since 1977, FHA mortgage limits have been increased four times -- in 1977, 1979, 1980, and 1987. However, FHA downpayment requirements have not responded to the increases. With the exception of a provision in a 1983 act (PL-99-181), which allowed FHA insurance for 97 percent of the home if the home's value did not exceed \$50,000, no changes in downpayment policy have been made since 1977.

AVAILABILITY OF ADJUSTABLE RATE MORTGAGES (ARMs)

The Act will authorize FHA to insure ARMs under which interest rates may rise up to 2 percent per year not to exceed a total of 5 percent over the life of a loan. This type of ARM has become the most widely used, because of its attractiveness in the secondary market, it can provide lower interest rates not only initially but also over the life of the loan. FHA currently insures ARMs whose rates rise no more than 1 percent per year to a total not to exceed 5 percent over the life of the loan. That option will be continued although it has not gained wide acceptance.

The Act will remove the statutory limit on the aggregate number of ARM loans that FHA may insure in a year.

The Secretary will be required to establish special underwriting standards that are adequate to ensure this form of ARM will be used only if a borrower is not exposed to unreasonable financial risks. The Secretary will also be directed to monitor ARM program costs and losses to make sure they will remain at acceptable levels.

August 10, 1988

NATIONAL AFFORDABLE HOUSING ACT
STAFF CONCEPT PAPER
FOR REVIEW NOT FOR RELEASE

PRESERVATION OF AFFORDABLE HOUSING

IN GENERAL

The National Affordable Housing Act ("the Act") will mobilize a national effort to retain the supply of housing affordable to low-income and moderate-income Americans wherever feasible.

The Act will:

- * State that it is national policy to continue the low-income affordability of federally assisted housing, particularly in tight housing markets;
- * Establish within HUD a new Office of Affordable Housing Preservation staffed with financial and legal experts responsible for maintaining the low-income affordability of privately owned, federally assisted rental housing in the most cost-effective manner;
- * Direct the Office of Affordable Housing Preservation to identify low cost housing that may become unaffordable and to develop strategies to mobilize federal, state, local and private resources to retain the affordability of that housing;
- * Authorize HUD to contract with non-profit intermediaries capable of helping owners, tenants, states, and localities arrive at project-specific plans of action that will extend the financial soundness and low-income affordability of rental housing;
- * Encourage each state and locality to participate in the effort to retain low-income affordability of rental housing;
- * Require the Secretary to conduct an on-going review of market developments and public policies that are adverse to the maintenance of an adequate supply of housing affordable to low-income Americans -- including housing that is publicly owned and privately owned, whether or not it has received federal assistance; and
- * Extend authority for public housing modernization.

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The Act will address a profound change in the problem of affordable housing -- a change that is quite recent and still not generally recognized. In past years, the problem of housing for low-income Americans was considered to be a problem of housing quality. Now the most alarming problem is that low-cost housing will simply be unavailable in many areas. Even in areas with relatively high overall vacancy rates, housing may be in very short supply for low-income people, particularly minorities.

A number of factors are contributing to the diminished supply of affordable housing. They include:

- * Rising rents, particularly in tight housing markets;
- * The expiration of federal rent contracts;
- * The physical and financial needs of many projects;
- * The ability of some owners to convert their properties to market rate housing;
- * The disincentives for continued investment in low-income housing contained in the Tax Reform Act of 1986; and
- * the lack of economic incentive for construction of affordable rental housing by the private sector.

The potential loss of the existing affordable housing stock will be the country's most compelling housing problem in the next decade.

In the Housing and Community Development Act of 1987 (P.L. 100-242), Congress established its intent to preserve the low-income affordability of HUD-owned and HUD-held multifamily housing and privately-owned, federally-assisted rental housing. The Act will include authority to carry out that intent more effectively. Separate legislation will be developed later this year to take effect when key provisions of the 1987 Act are due to expire.

The Act will reaffirm the goal of modernizing the nation's stock of low-income public housing to ensure its continued availability as decent, safe and sanitary housing.

STATEMENT OF NATIONAL POLICY

The Act will affirm that it is national policy to:

- * Extend to the maximum extent practicable the low-income affordability of housing that has been produced with federal assistance;
- * Maintain federally assisted housing as a suitable living environment;
- * Minimize the involuntary displacement of low-income and moderate-income tenants of federally assisted housing;
- * Continue a strong and equitable partnership among all levels of government and the private sector in the production and operation of housing that is affordable to low-income Americans.

OFFICE OF AFFORDABLE HOUSING PRESERVATION

The Act will amend Section 4 of the Department of HUD Act (P.L. 89-174) to establish a new Office of Affordable Housing Preservation ("the Office"), which will report to the Assistant Secretary for Housing/FHA Commissioner. The Office will be one of three new "hot spots" within the Department, a center with a clear and important mission to which able people can be attracted. It will be staffed by legal and financial experts.

Implementation of statute. The Office will have principal responsibility for administering provisions of law and providing leadership on issues that affect the continued low-income affordability of rental housing, particularly:

- * Provisions of the Emergency Low Income Housing Preservation Act of 1987, or successor legislation, that relate to HUD-assisted housing;
- * Section 203 of the Housing and Community Development Amendments of 1978 relating to the management and preservation of HUD-owned and HUD-held multi-family housing projects; and
- * Section 8(v) of the Housing Act of 1937 relating to the provision of loan management assistance to troubled FHA-insured, multifamily housing projects.

Technical expertise. The Office will be responsible for providing the federal government with the technical expertise needed to:

- * Identify projects whose financial viability or low-income affordability is endangered ("at-risk projects");
- * Evaluate the level and kind of federal assistance that will cost-effectively maintain the low-income affordability of that housing;
- * Determine the appropriateness of proposed plans of action that would terminate or extend the low-income affordability of privately owned, federally assisted rental housing; and
- * Prevent federally insured projects from falling into default, assignment or foreclosure, or being subject to other adverse action by FHA.

Leadership to protect at-risk projects. The Office will be responsible for:

- * Developing accurate data bases on federally-assisted, privately-owned affordable housing and analytical tools to help retain it;
- * Working with state and local governments to develop preservation strategies and to assist them in implementing project-specific plans of action;
- * Informing owners, tenants and other interested parties of financing options and provisions of law that affect the termination or continuation of low income affordability of the project;
- * Analyzing, with states and localities, the physical and financial condition of a project, regulatory and tax considerations related to the project and ownership entity, the nature and extent of low-income and moderate-income occupancy, and the affordability of rent charges;
- * Analyzing the amount, type and sources of government assistance that would provide a fair and reasonable return to the owner and preserve the future availability and affordability of the housing to low-income and moderate-income households;

- * Helping affected parties develop plans of action that would continue the low-income and moderate-income affordability restrictions of the housing, including transfer of ownership, if necessary;
- * Assuring timely approval of plans of action required by statute;
- * Reporting to Congress in 6-month intervals on progress made to identify and protect at-risk properties and on the cost-effectiveness and equity of the solutions approved; and
- * Identifying the need for additional legislative remedies.

MEDIATION TO ASSIST LOW-INCOME AFFORDABILITY

The Emergency Low Income Housing Preservation Act of 1987, for a two-year period, establishes procedures for extending the low income affordability of at-risk housing. Separate legislation will also be developed to take effect when current law expires.

In most cases, owners and tenants of at-risk projects, with assistance of state and local housing agencies and other interested parties will have the capacity to develop plans of action to preserve the low-income affordability of such projects.

In those cases where additional technical help may be needed, the Act will authorize the Secretary to contract with mediators to provide some of the assistance noted above and help affected parties develop acceptable plans of action. Such intermediaries would be organizations with expertise in housing law and with skill in reconciling the interests of tenants and owners with interests of state, local, and federal governments.

An intermediary providing technical assistance to an at-risk project under this section will be precluded from assuming a financial interest in the project.

STATE AND LOCAL HOUSING PRESERVATION EFFORTS

The Act will require each state and locality participating in the HOP program to include in its housing strategy a description of the steps it will take to continue the low-income affordability of federally assisted housing within its jurisdiction. Each participating jurisdiction will be required to designate a lead agency to act as its liaison in the negotiation and

implementation of project-specific plans of action to preserve the low-income affordability of at-risk projects.

MONITORING THE AVAILABILITY OF AFFORDABLE HOUSING

The Secretary will be directed to conduct an ongoing analysis of market forces and public policies that may adversely affect the supply of housing affordable to low-income Americans. This ongoing review will consider publicly owned housing as well as privately owned housing, whether or not it has received federal assistance. The Secretary will be required to report his findings to the Congress on a periodic basis together with any legislative recommendations the Secretary believes are justified by the report.

LOW-INCOME PUBLIC HOUSING

The Act will extend authorization for the Comprehensive Improvement Assistance Program to modernize the nation's stock of publicly owned, low-income housing. The Assistant Secretary for Public Housing will continue to administer the CIAP program.

August 11, 1988

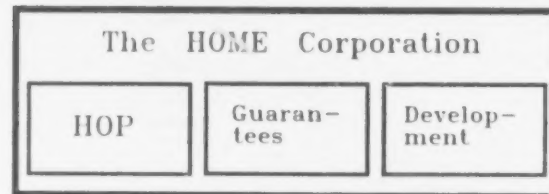
NATIONAL AFFORDABLE HOUSING ACT
STAFF CONCEPT PAPER
FOR REVIEW NOT FOR RELEASE

INVESTMENT IN STATE AND LOCAL HOUSING STRATEGIES

IN GENERAL

The National Affordable Housing Act will provide flexible assistance to state and local housing strategies through a new corporation, revised FHA insurance authority and extension of mortgage revenue bond authority.

- A. The Act will establish within HUD a new corporation responsible for providing federal support to state and local strategies that expand the supply of affordable housing. The president of the corporation will report directly to the Secretary.



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The corporation will be authorized to:

1. Administer a Housing Opportunity Partnerships (HOP) program to invest in housing strategies designed by states and localities. Using a formula, the corporation will provide funds by purchasing non-amortizing, non-debt "HOP Investment Certificates" issued by public agencies to implement housing strategies;
2. Guarantee the timely payment of principal and interest on securities backed by mortgages on affordable housing, which securities may be

issued either by the HOME Corporation or states and localities. In general, states and localities will form pools of mortgages; mortgages in a pool will not need to be federally insured if a state or locality meets certain underwriting standards and agrees to bear a significant portion of the risk of default; and

3. Foster development of state and local housing strategies and public-private partnerships. By contracting with public agencies and private organizations, the corporation will provide industry with a central point of contact on policy, provide technical assistance, encourage the exchange of information among jurisdictions, and support research for program development.
- B. The new bill will include FHA authority to insure future mortgages on multifamily rental housing. Previously used authorities, and their section numbers, will become inactive over time.
- C. If Congress has not already extended mortgage revenue bond authority when the new bill is introduced, the bill will include a provision to accomplish that.

These provisions will enable state and local government to assume responsibility for detailed design and implementation of housing programs. They will:

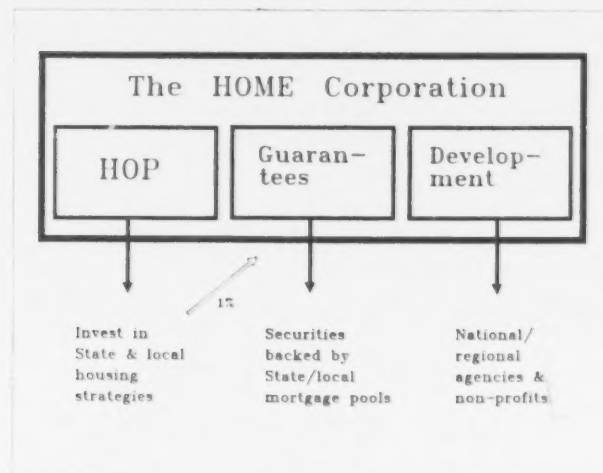
- Enable states and localities to receive various forms of needed assistance from one distinct organization within HUD that has a strong incentive to help the state and local housing strategies succeed;
- Simplify federal assistance and make it adaptable to differing local conditions;
- Provide low-cost capital to states and localities giving them broad discretion to use those funds for low interest loans, interest write-downs or other forms of assistance they choose;
- Motivate states and localities to provide housing with long-term affordability; and
- Provide credit enhancement either at the pool level through the new corporation or at the mortgage level through FHA.

Guarantees on securities backed by mortgage pools could provide credit enhancement more efficiently for states that have strong underwriting capability and willingness to share risk. Such a state will thus have more freedom to design and implement its own program. States with less experience or willingness to bear risk could proceed with FHA insurance.

The corporation's charter will be written to permit evolution and experimentation in the corporation's services and other forms of assistance.

A -- ESTABLISHMENT OF THE HOME CORPORATION

The Act will create a wholly-owned government corporation within HUD: the Government National HOME Corporation (the HOME Corporation). The corporation's powers and responsibilities will be vested in the Secretary. The corporation's president will be appointed by the President with the advice and consent of the Senate and will report to the Secretary. Funding will be provided in appropriation acts.



The new corporation will operate alongside Ginnie Mae, which will retain its current responsibilities and function primarily in support of single-family, market rate financing.

1) HOUSING OPPORTUNITY PARTNERSHIPS (HOP)

The HOME Corporation will administer the HOP program, which will provide states and localities with long-term, low-cost capital to expand the supply of affordable housing. HOP funds can be used flexibly in conjunction with public-private partnerships at the state and local levels. Funds will be allocated partly by formula and partly by national competition.

The HOME Corporation will make HOP funds available by investing in special financial instruments, called "HOP Investment Certificates", which are issued by agencies designated by a state or locality to carry out part or all of its housing strategy. An issuing agency must be a public agency responsible to the chief executive of the state or locality.

Nature of HOP Investment Certificates. The HOME Corporation will make commitments to purchase HOP Investment Certificates pursuant to approved state and local housing strategies.

The HOME Corporation will establish the form and terms of the certificates, which will include the following characteristics. HOP investment certificates will be structured so that they shall not be counted as debt of the participating state or local government. Certificates would provide for repayment of principal to the HOME Corporation upon termination of the low-income affordability restrictions on an assisted project. Repayment would be from the residual value of the project and would not involve the credit of the issuing state or locality. The HOME Corporation will promptly reallocate any such repayments by formula as described below. The certificates will provide for payment of an annual fee to the HOME Corporation for not less than 5 years. That fee could not exceed 10 percent of the federal government's cost of long term capital at the time of issuance. The fee would be deposited in a reserve for default on guarantees as described in section 2 below.

The state or locality would be permitted to retain funds for reuse if such reuse is pursuant to an approved strategy for expanding the long-term supply of affordable housing. This would permit use of HOP resources for short-term assistance such as loans for homeownership and construction loans.

Repayment of principal will be waived at the time of purchase if the HOME Corporation finds sufficient assurance that:

- * the housing will remain affordable for its full useful life, or
- * binding commitments have been made that, if affordable units are converted to other use, they will be replaced with an equal number of affordable units without capital subsidies from the federal government.

HOP Investment Certificates will be held in the HOME Corporation's portfolio, not publicly traded.

Definition of affordable housing. HOP funds may be used only to expand the supply of long-term affordable housing. The affordable housing may be an entire housing project or a portion of dwelling units in a housing project.

To qualify as "affordable housing", rental housing will have to:

- * Rent at a level not greater than the existing fair market rent established by HUD for comparable units in the area;
- * Have no less than xx percent of the units occupied by persons who are eligible for rental credits (Section 8 certificates or vouchers) and who will pay no more than 30 percent of adjusted household income as a contribution to rent;
- * Restrict occupancy to households with incomes no greater than xx percent of the area median as determined by HUD; and
- * Preclude discrimination against prospective renters because of their status as holders of a rental credit (Section 8 certificate or voucher).

To qualify as "affordable housing", housing for homeownership will have to:

- * Have a purchase price that does not exceed xx percent of the median purchase price for the area, as determined by the Secretary for different categories of housing;
- * Be made available to people with a family income that does not exceed the higher of the national median income or the area median income for a family of

4 persons, except that up to 30 percent of the units may be made available to families whose incomes exceed the area median by no more than 15 percent; and

- * Be made available only to persons who have not owned a home during the previous 3-year period.

Use of proceeds. States and localities will have responsibility for program design. Assistance to individual projects could be in the form of short-term or long-term loans, grants, interest subsidies and other mechanisms chosen by a state or locality.

HOP Investment Certificate proceeds could be used only to expand the supply of long-term affordable housing. That could be done through new construction, substantial rehabilitation or, in markets with high vacancy rates, acquisition of rental housing. New construction and substantial rehabilitation of housing for homeownership will also be permitted. Acquisition of housing would be permitted only through limited equity cooperatives that retain the housing's affordability at resale. Funds could not, however, be used for light to moderate renovation.

A state or local government will be responsible for maintaining accountability in the use of HOP funds and will be required to repurchase the HOP investment certificates if the funds are used in violation of federal law.

Not less than 10 percent of the proceeds of each jurisdiction shall be reserved for the use of non-profit organizations that have as one of their major purposes the production or maintenance of affordable housing. That reservation shall hold for 18 months after the HOME Corporation makes a commitment to purchase HOP Investment Certificates. After that period, a state or locality may determine that qualified non-profit organizations cannot use such funds pursuant to the housing strategy. If the HOME Corporation agrees, the state or locality may use 50 percent of the funds so reserved and shall return the remaining 50 percent to the HOME Corporation for allocation to non-profit organizations in other jurisdictions.

Not more than 25 percent of the proceeds of each jurisdiction may be used for publicly owned housing.

States and localities may recycle HOP funds. They will be permitted to reuse any repayment of principal or interest received from the investment of the funds, so long as all such funds are used pursuant to an approved strategy for expanding the long-term supply of affordable income housing.

Annual fees paid on HOP Investment Certificates will be deposited in a reserve fund to back guarantees issued section 2 below.

Receipts in excess of amounts needed for that purpose could be used for capacity building in jurisdictions that are fiscally hard pressed.

Matching requirements. States and localities will be required to match HOP Investment Certificate proceeds on a xx percent basis. The state or local match could be in the form of:

- * Cash contribution to projects from state or local revenues;
- * Expenditures from state or local revenues to administer a housing strategy, up to 5% of the amount of the formula subscription share; and
- * The value of fees that are normally and customarily imposed on housing construction or rehabilitation but are waived for housing produced with assistance under this Act.

Additional contributions, in the form of land or other in-kind contributions, would be used to achieve financial feasibility of affordable housing projects.

A state or local government could deposit HOP Investment Certificate proceeds in a housing trust fund that also received funding from a dedicated source of revenues.

Proceeds will have to be used in a way that leverages private investment.

Incentives for long-term affordability. The HOME Corporation will be authorized to provide incentives for states and localities to find ways to maintain the low-income affordability of HOP assisted housing for the longest feasible period of time consistent with sound economics. Such incentives could involve adjustments in the matching and private leveraging requirements.

Formula allocation of HOP investment. Each year, the HOME Corporation will commit to purchase HOP Investment Certificates up to a total provided in appropriations.

Of the total made available, 80 percent will be allocated by formula and 20 percent by national competition. The Secretary will be authorized to establish a formula that reflects intensity of housing need, taking into account:

Population;
Income and poverty;
The condition of local housing stock;
Vacancy rates and vacancy duration in affordable rental housing -- by unit size;
Overcrowding;
Fiscal distress of the state and local government; and
An affordability index that compares housing cost to income of moderate and low income households.

Fifty percent of the formula funds would be apportioned among localities. A locality will be eligible to participate in HOP directly if its subscription share exceeds \$xx million, the minimum needed to plan and implement an effective housing strategy. If a locality falls below that threshold, it would still be able to participate if:

- * The Secretary finds that the locality is the central city of a metropolitan area, it has a local housing authority, it has a record of sound administration of housing programs, and the state has committed resources to the locality equal to or greater than the difference between the locality's subscription share and the \$xx million threshold for participation; or
- * The locality is part of a consortium of geographically proximate units of general local government, formed to participate in the HOP program on behalf of its members, whose members have subscription shares that aggregate to more than the \$xx million threshold for participation.

Once a locality participates, it will continue to do so unless its formula subscription share falls more than \$yy million below the \$xx million threshold for three consecutive years. The subscription share of a locality that is not eligible to participate, would be allocated to its state.

The other fifty percent of the formula funds would be apportioned among the states according to a formula that considers state-wide housing conditions. Each state would be required to allocate HOP funds geographically according to the need for housing. The Act would require that state assistance to housing within the jurisdiction of a participating locality would be provided in ways that reinforce rather than overlap activities of the locality.

Incentive allocation of HOP investment. The remaining 20 percent of the total appropriated for the HOP program will be allocated by national competition. This will supplement the subscription shares of those states or localities having housing strategies that are exemplary, innovative, or designed to respond to particularly difficult housing problems. Factors for consideration in the competition will include indicators of project merit, the degree to which the applicant jurisdiction exceeds statutory requirements for low income targeting, state or local matching and private leveraging in the use of the formula amounts. These supplemental allocations will be limited to xx percent of the state's or locality's formula subscription share.

State and local participation. The state or locality will be responsible for deciding to participate and for tailoring a housing strategy to local needs. As noted above, localities whose formula subscription share exceeds \$xx million, will be eligible to assume direct responsibility for designing and implementing a housing strategy.

After formula allocations are made, commitment of funds will follow a four step process:

1. The state or locality will make a simple notification to the HOME Corporation that the state or locality will participate. That notification will lock in the jurisdiction's subscription share. Notification will have to be made within 6 months.
2. The state or locality will be required to prepare a housing strategy as specified below. The strategy will be deemed approved unless the HOME Corporation finds, within 60 days, that it fails to meet requirements of the law.
3. After a strategy is approved, the HOME Corporation will make binding commitments to purchase HOP Investment Certificates up to the state's or locality's total subscription share. Preliminary agreements will be signed under which the HOME Corporation will affirm its obligation to purchase a specified volume of HOP Investment Certificates and the state or locality will make such commitments to comply with the requirements of federal law as the HOME Corporation determines are necessary.
4. When designated agencies are ready to use the funds, they will issue the HOP Investment Certificates to the HOME Corporation and receive the proceeds promptly.

Provision will be made for pursuing national housing goals in a state or locality that chooses not to participate.

1. If an eligible locality chooses not to participate, the locality's share will be allocated to the state with priority going to housing within the locality.
2. If a state chooses not to participate, all cities and counties within that state will be invited to participate and 50 percent of the state's share will be allocated by competition among those choosing to participate. The HOME Corporation would promptly reallocate the remainder of that state's share among participating states.
3. If the locality and state both choose not to participate, the HOME Corporation will allocate 50 percent of the subscription shares by competition with priority going to applications for housing within the affected jurisdictions. The remainder of the subscription shares would be reallocated promptly among participating states. In this case, HOP investment certificates could be issued by non-profit organizations that are not public agencies.

Under situations (2) and (3), in which a state chooses not to participate, consortia of geographically proximate units of general local government within that state will be permitted to act on behalf of their members.

State and local housing strategies. A participating state or locality will be required to prepare a five-year housing strategy, which could be updated each year. The Secretary will establish criteria that a state housing strategy must meet to be eligible for HOME Corporation investment. The HOME Corporation will be authorized to determine whether a state has met those criteria before making the investment.

At a minimum, a housing strategy will be required to:

- * Describe the housing needs of the jurisdiction projected over the subsequent five-year period, including the specific housing needs for low-income and moderate income people;
- * Analyze the obstacles to development, maintenance and improvement of affordable housing, including land use

controls, building codes, fees and charges, and growth limits;

- * Describe state or local government actions to meet those needs, actions to reduce or remove those obstacles, and commitments to continue those actions;
- * Describe how funds invested by the HOME Corporation will be used to achieve state and local housing goals and the purposes of the Act;
- * Designate the agencies and organizations that will implement the housing strategy and be eligible to issue HOP Investment Certificates, specifying maximum investment authorized for each agency or organization;
- * Identify state or local resources that will be made available to carry out the housing strategy;
- * Identify methods for mobilizing necessary non-governmental resources, specifying commitments that have been made by private firms and non-profit organizations; and
- * Describe provisions that the state or locality has made for public hearings and citizen participation in the formulation of the housing strategy.

Each state and the participating localities within the state will be held responsible for ensuring that their housing strategies are consistent with one another.

Approval of housing strategies. The HOME Corporation will be required to approve a state or local housing strategy within 90 days of its submission unless the strategy is inconsistent with the purposes of the Act or does not contain the elements prescribed by the Secretary.

HOME Corporation investment. The state or locality will designate one or more public agencies to carry out the strategy. The designation will include a dollar allocation of the jurisdiction's subscription share to each agency. These agencies will then be eligible to issue HOP Investment Certificates directly to the HOME Corporation. To be eligible, agencies would have to be responsible to the chief executive of the state or locality. They could include the state and local agencies as well as government-sponsored, public purpose corporations. New institutions could be created or existing ones used.

HOME Corporation commitments to purchase these HOP Investment Certificates will remain in effect for 5 years. Therefore, funds from the first 3 years of appropriations could flow to a state over an 8 year period, timed to coincide with the state's ability to employ the funds soundly. This arrangement will permit a state or locality with an active housing program to use its full subscription quickly, while giving a jurisdiction without such a program sufficient time to develop one in an orderly manner.

The HOME Corporation will be obligated promptly to purchase HOP Investment Certificates issued by an eligible agency when requested by the appropriate state or locality. The HOME Corporation will have limited discretion over the timing of its investment to ensure that HOP Investment Certificate proceeds are used pursuant to an approved strategy and are employed within a reasonable time after the HOP Investment Certificates are issued.

Federal oversight. The HOME Corporation will establish performance standards and a system to evaluate HOP activities.

Each participating state and locality will be required to submit an annual progress report that evaluates progress made over the prior 12 months in achieving the goals stated in the housing strategy. The progress reports shall be in a form prescribed by the Secretary. Any amendments and revisions to the housing strategy will be submitted and approved in conjunction with the annual progress report.

The Corporation will review state and local housing activities to ensure that they are in compliance with federal law. If, after due notice, a state or locality continues to be in non-compliance, the Secretary may require repurchase of the HOP Investment Certificates and may designate the state or locality to be non-participating, which will cancel all outstanding commitments. Any recaptured funds will be promptly reallocated by formula to states and localities against which action has not been taken.

2) CREDIT ENHANCEMENT: SECURITIES BACKED BY MORTGAGE POOLS

The Act will expand the ability of states and localities to lower the cost of long-term financing for affordable rental housing. The long-term financing of affordable rental housing has been hampered by lack of access to the credit markets.

Current credit enhancement methods, such as FHA insurance and GNMA guarantees, make individual multifamily mortgages less risky, more attractive investments.

The HOME Corporation will provide a new form of credit enhancement by guaranteeing securities backed by pools of mortgages on affordable rental housing. This method would avoid the need for a large new bureaucracy.

States and localities would be encouraged to form the mortgage pools. For states and localities that are active in housing, this method of federal credit enhancement could provide more freedom in program design and efficiency in housing finance. The evolution of securities backed by pools of multifamily mortgages could significantly reduce interest costs for affordable rental housing by providing investors with securities that have more predictable financial performance and more liquidity.

The Act will authorize appropriations of \$xx million as initial capitalization for reserves and operating capital.

Guarantees. The HOME Corporation will guarantee the timely payment of principal and interest on securities backed by pools of qualifying mortgages for affordable rental housing. This guarantee will be available for mortgage backed securities issued by state and local governments and securities that may be issued by the HOME Corporation. The volume of guarantees would be subject to amounts approved in appropriations acts.

This guarantee will be an important and appropriate activity of the HOME Corporation since a major element in the perceived risk of investment in mortgages on low-income and moderate-income rental housing is the uncertainty of long-term federal support for affordable housing.

Reserves for default. The guarantee will be a full faith and credit pledge of the United States. The HOME Corporation will maintain a fund for reserves against potential losses on the guaranteed securities. The initial capitalization will be supplemented by fees charged on the use of the guarantees and by fees paid on HOP investment certificates issued as described above. Funds in the reserve will be invested in Treasury securities and the interest shall remain in the reserve.

Funding of the reserve by sources other than guarantee fees will allow the HOME Corporation to charge guarantee fees that will provide an attractive financing source for state and local housing agencies.

Issuers of mortgage backed securities. States, local governments and consortia of states and local governments will be encouraged to form the pools of mortgages backing securities guaranteed by the HOME Corporation. Cooperation among states and localities

will be authorized in the Act and subject to the laws of the participating jurisdictions.

The HOME Corporation will provide such technical assistance as is needed for developers, states and localities to make use of the guarantee.

Risk sharing and mortgage insurance. An issuer of mortgage backed securities will apply to the HOME Corporation for use of the guarantee. If the issuer has a history of successfully underwriting and financing affordable rental housing, establishes high underwriting standards, and is willing and able to share a prescribed portion of the risk of loss on the pool of mortgage loans, the HOME Corporation will provide the guarantee promptly with a minimum of federal red tape.

Issuers would still be able to make use of the guarantee if they have less experience in underwriting and financing affordable rental housing, or if they are unable to share the prescribed portion of risk of default on the mortgage pool. Mortgages from such issuers may be required to have FHA insurance, co-insurance or other forms of mortgage insurance, including forms of insurance developed by the HOME Corporation.

States and localities wishing to participate may combine HOP assistance with this long-term guaranteed financing to foster development of affordable rental housing.

HOME Corporation purchasing and pooling of mortgages. The HOME Corporation will be authorized to issue on its own behalf securities backed by mortgage pools and to sell pools of mortgage loans for affordable rental housing purchased from state and local governments. In doing this, the HOME Corporation will either purchase or commit to purchase the mortgage loans backing its securities or comprising the pools to be sold. It will provide this service for states and localities that cannot or do not wish to pool mortgages and issue securities on their own behalf. This service will also be available to other state and local governmental entities. This will provide economies of scale and a beneficial borrowing rate that the HOME Corporation shall pass through to the affordable housing projects. The HOME Corporation shall charge a reasonable fee for this service, which fee shall be deposited in the reserve against losses.

The HOME Corporation shall provide a source of fixed rate, long-term financing. The HOME Corporation shall establish a regular schedule of financing to give states and localities predictable access to this service. This function will be of great value to issuers that lack the staff and experience necessary to gain access to the credit markets on their own.

Technical assistance. The HOME Corporation will provide technical assistance to developers of affordable rental housing and to states and localities to facilitate their use of the guarantee. Such assistance shall include help in understanding and obtaining federal mortgage insurance.

Joint operations for efficiency. Where it would reduce costs of operation or achieve valuable efficiencies of scale, the HOME Corporation would be authorized to enter into agreements with other organizations -- such as Fannie Mae, Freddie Mac, Ginnie Mae, and private firms -- to provide services related to the purchasing, pooling or selling of mortgages and the guaranteeing of securities backed by mortgages on affordable rental housing.

3) OTHER SUPPORT FOR STATE & LOCAL HOUSING STRATEGIES

The HOME Corporation will provide additional assistance through contracts with public agencies, national housing organizations, and non-profit intermediary organizations that provide technical assistance and training for local low-income housing developers. No such contract could exceed 10 percent of the operating budget of the contracting organization.

The HOME Corporation will be authorized to:

- * Facilitate the exchange of housing information among participating states and localities, including information on program design, financing mechanisms, regulatory relief, and building construction techniques;
- * Increase the ability of non-profit and for-profit corporations to join in public-private partnerships to achieve local, state and national housing goals;
- * Build capacity for design and implementation of housing strategies in state and local government, particularly in those jurisdictions that have had substantial need for decent, affordable housing but little experience in developing public-private partnerships to provide such housing;
- * Build the capacity of low-income housing developers in communities and rural areas where it is weak or absent;

- * Promote the expansion of benevolent lending throughout the United States to increase the flow of private capital into low-income housing through the establishment of benevolent loan funds in banks and thrift institutions that will accept deposits at low interest rates from charitably motivated investors and lend that money to low-income housing developers and low-income home buyers;
- * Assist state and locally initiated efforts to establish privately owned, local community development banks to fund affordable housing activities; and
- * Conduct such studies and research, publish such reports, and provide such technical assistance as will carry out the purposes of the Act, including an ongoing analysis of the aggregate impact of public policies on the incentives to maintain and expand the supply of affordable housing.

B -- CREDIT ENHANCEMENT: FHA MULTIFAMILY MORTGAGE INSURANCE

FHA multifamily insurance authority could be simplified. Authorization for FHA insurance on future projects will be provided in the new Act. Old section numbers will no longer be used after a sufficient transition period to avoid interfering with plans that may be underway to make use of these programs.

C -- TAX PROVISIONS

Refinements to the low-income tax credit will be suggested. Details are under development.

NATIONAL AFFORDABLE HOUSING ACT
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LOW INCOME RENTAL ASSISTANCE

IN GENERAL

The National Affordable Housing Act ("the Act") will establish a new form of low-income rental assistance, to be called "rental credits", which will replace the current vouchers and Section 8 certificates.

Rental credits will incorporate the best features of vouchers and certificates and will improve upon them by:

- * Distributing rental assistance under a predictable formula so states and localities can plan their housing strategies, making the best use of rental assistance in conjunction with Housing Opportunity Partnerships (HOP) and other programs;
- * Making rental assistance more flexible by letting states and localities provide it either as tenant-based subsidies or as project-based subsidies in connection with HOP;
- * Ensuring that recipients pay an affordable contribution -- 30 percent of their adjusted income -- toward rent for decent, safe and sanitary housing;
- * Making decent housing more accessible to low-income people by permitting states and localities to develop "fair market rent" schedules that reflect local housing costs more precisely than the HUD-established schedules now do; and
- * Ensuring that program management is more effective by providing a sliding administrative fee system. Fees will be lowered from current levels in areas with a substantial supply of affordable housing, but fees above the base level will be available to housing agencies in tight markets to accommodate the cost of helping recipients locate decent, affordable housing where it is hard to find.

Contract terms will be for 5 years. In general, eligibility for rental credits will be limited to people whose adjusted family income does not exceed 50 percent of the area median.

The Act will make it easier for Congress to renew rental assistance contracts as they expire in coming years. Under existing law, renewal of expiring contracts will force Congress to approve erratic year-to-year swings in budget authority. The Act will allocate rental credits to renew expiring rental assistance, and it will permit the Secretary to adjust the term of those rental credits to achieve a stable pattern of renewal in later years.

The Act will also permit states and localities to use housing assistance in support of welfare reform.

RENTAL CREDITS

The Act will authorize rental credits to replace the current Section 8 Certificate and voucher programs. The Secretary will allocate available rental credits as needed (1) for distribution by formula to states and localities, and (2) to support low-income targeting under the HOP program, housing preservation, and supportive housing.

Formula. The Act will provide for formula distribution of most rental credits to states and localities participating in the HOP program. This will replace the current system under which HUD field offices make the allocation. Formula distribution will permit states and localities to plan housing strategies with more confidence in the amount of rental assistance they will have available.

The Act will direct the Secretary, within 12-months after enactment, to develop a formula that takes into account (1) the need to achieve low-income targeting in housing assisted under the HOP program, (2) the distribution of low-income households, (3) the intensity of local problems of housing affordability, (4) the structure of the state and local agencies administering rental assistance, and (5) other relevant factors. The Secretary will be required to recommend legislation to implement such a formula.

Until the new formula is in place, the Act will provide an interim formula that takes into account each participating state's and locality's average share of total rental assistance during the previous three fiscal years. The Secretary will retain xx percent of the rental credits for distribution by the Secretary to renew expiring rental assistance, to extend the low-income affordability of privately-owned but federally assisted housing, to correct for inequities in the distribution during those previous years, and to achieve low-income targeting under the HOP program.

Contract Term. Rental credits will, in general, have 5-year contract terms.

The Act will permit rental credits used for renewal to have terms of less than 5 years. Adjustable terms are needed so the Secretary can ease the problem of expiring certificates and vouchers -- a problem that will be severe beginning in 1991. The current policy of Congress and the Administration is to renew those contracts when they expire. Implementation of that policy will be difficult because expirations are due to occur in a very uneven pattern from year-to-year. Congress will have to make erratic changes in funding from year to year just to maintain a steady availability of rental assistance. If all expiring contracts are renewed for the same length of time, that same uneven pattern would be repeated indefinitely into the future.

To correct this situation, the Act will direct the Secretary to smooth the pattern of expirations in future years. By using some rental credits with terms less than 5 years, the Secretary could "cut the peaks and fill in the valleys" to create a stable level of expirations.

Mode of assistance. The Act will leave it to states and localities to decide whether to use rental credits as tenant-based or project-based housing assistance.

As tenant-based rental assistance, a rental credit will provide a portable subsidy that a low-income family can use to rent an existing apartment of their choice.

As project-based rental assistance, a rental credit could be attached to a unit that is built, rehabilitated or acquired with HOP resources to expand the supply of housing affordable to low-income people. Despite the 5-year term of rental credits, commitments for low-income use could be made for longer periods. Under one arrangement, project owners would commit to make a specified number of units available to eligible low-income tenants for a number of years, on condition that rental credits are provided; and the state or locality would commit to provide the requisite number of rental credits on condition that Federal allocations make that possible.

Tenant rent contribution. A household's rent contribution under a rental credit will equal 30 percent of adjusted income, with the exception noted below. The subsidy payment will equal the difference between this contribution and the tenant's gross rent up to a "fair market rent" established for the area.

An exception to the rent contribution standard could be made by a state or locality to accommodate a tenant who wants to pay more than 30 percent of income to live in an apartment renting for more than the fair market rent. These exceptions to the 30 percent standard shall be allowed for no more than, say, 10 percent of a jurisdiction's rental credits, only at the tenant's request, and only if the state or locality determines after investigation that the rent charge is fair. If a state or locality approves higher rent contributions for more than 5 percent of its rental credits, the state or locality will be required to submit a year-end report to the Secretary describing the reasons for making the exceptions, including any evidence that the exceptions were made necessary by the inadequacy of the fair market rents established for the area.

This method reaffirms Congressional intent that tenant rent costs not exceed 30 percent of adjusted income. The Act would thus solve problems noted in a recent Abt Associates study, which found that 48 percent of all voucher recipients have rent burdens above 31 percent of net income, with 25 percent having rent burdens greater than 40 percent of income. The report also found that the voucher program, rather than prompting most recipients to search for the lowest cost housing, primarily rewards recipients who happen to be living in low rent units and who stay in place.

Alternative fair market rents. The Act will continue HUD's current procedures for establishing fair market rents for each local market.

The Act will permit a state or locality to recommend an alternative fair market rent schedule that more precisely reflects rent variations in submarkets within its jurisdiction.

The Secretary will be authorized to adopt the alternative system if he finds that it will better achieve national housing objectives, such as broader housing opportunities, more proximity to employment and education opportunities for low-income households, or greater access to decent, safe and sanitary housing for families with special needs. The Secretary would also have to find that the alternative fair market rent system can reasonably be expected to involve no extra cost to the federal government.

Alternative fair market rent schedules may be most useful where the current system applies one fair market rent to a wide area that has substantial rent variations within it. In such cases, a major portion of the rental market may be excluded from the program, making it harder for holders of rental assistance to find affordable housing.

Administrative fees. The Act will provide more appropriate reimbursement for the costs of administering rental assistance. The Act will recognize that administrative expenses will vary widely depending upon the tightness of the local housing market and the type of tenant populations served in such markets.

The Act will establish a base administrative fee of xx percent for all public housing agencies (PHAs). A higher fee of yy percent will be provided to agencies that serve tight housing markets and offer a high level of housing-related services to rental credit holders. A market with a vacancy rate of less than zz percent among units renting at or below the fair market rent would be deemed tight.

The Act will also direct the Secretary to institute a bonus payment schedule to reflect reasonable costs of helping hard-to-house families and handicapped individuals find decent, affordable housing in a tight rental market. The schedule developed by the Secretary shall not exceed:

<u>Household</u>	<u>Bonus Payment</u>
4 persons	\$ xx
5 persons	\$ xx
6+ persons	\$ xx

The payments will be based upon year-end documentation submitted by the PHA administering the rental credits.

The bonuses would be structured to provide incentives for a PHA to help families find satisfactory housing. A PHA will be required to monitor the housing conditions of families for which they have received a bonus. If a family moves from the apartment within 18 months because of dissatisfaction with the placement, 50 percent of the bonus payment shall be deducted from future bonuses due the PHA.

Income eligibility. In general, the Act will limit eligibility for rental credits to people with family incomes at or below 50 percent of the area median, as determined by the Secretary. The Act will extend rental credits to those with incomes between 50 and 80 percent of area median only to avoid the displacement of tenants from federally subsidized apartments.

Other characteristics of rental credits. The Act will continue many elements of the existing programs including: 1) the requirement that housing leased under the program meet minimum housing quality standards to ensure "decent, safe and sanitary" housing; 2) the statutory protections accorded tenants who receive rental assistance; 3) the mechanism by which rents can be increased annually with adjustment factors computed by HUD for each housing market area and published in the Federal Register; 4) the requirement that the public housing authority certify that the contract rent for each unit is reasonable in relation to unassisted units of similar quality and age in the local market area.

HOUSING ASSISTANCE IN SUPPORT OF WELFARE REFORM

The Act will permit housing assistance to complement elements of welfare reform that promote self-sufficiency. A family actively engaged in job training or other welfare reform programs will be eligible for a rental credit if the family cannot otherwise afford decent, safe and sanitary housing. This transitional assistance may be provided for up to two years after the family successfully completes the program.

Transitional rental credits will be available to help welfare reform succeed by:

- * Enabling a family to move to housing that is accessible to employment and education opportunities; and
- * Relieving parents of the stress of unfit housing conditions while they are trying to work their way off welfare.

Eligible recipients will include individuals who are (a) actively engaged in a welfare reform program and (b) live in substandard housing or pay more than 50 percent of their monthly adjusted income for rent.

States and localities will be permitted to use up to xx percent of their rental credits for this purpose.

August 11, 1988

NATIONAL AFFORDABLE HOUSING ACT
STAFF CONCEPT PAPER
FOR REVIEW NOT FOR RELEASE

SUPPORTIVE HOUSING
AMENDMENT TO DEPARTMENT OF HUD ACT

IN GENERAL

The National Affordable Housing Act will facilitate implementation of a new housing policy by creating within HUD three new "hot spots", or distinct centers of new activity:

1. An Office of Housing Preservation responsible for retaining the current stock of affordable housing;
2. A Government National HOME Corporation to manage the Housing Opportunity Partnerships (HOP) program, provide credit enhancement on financing for housing developed with HOP assistance, and finance technical assistance and information sharing; and
3. An office of the Assistant Secretary for Supportive Housing.

ASSISTANT SECRETARY FOR SUPPORTIVE HOUSING

Section 4(a) of the Department of HUD Act would be amended to provide that there shall be a new position of Assistant Secretary for Supportive Housing, who shall be one of the eight currently authorized Assistant Secretaries. The Assistant Secretary for Supportive Housing shall be appointed by the President with the advice and consent of the Senate. This Assistant Secretary shall be responsible for:

- * Administration of housing programs that exclusively serve elderly, handicapped and homeless persons;
- * Developing refinements in other HUD programs, such as public housing for the elderly and the home equity conversion demonstration of FHA, to serve those with special needs better;
- * Serving as HUD's principal liaison with the Department of Health and Human Services, other federal agencies, and state human services agencies on matters relating

to supportive services for special tenant populations served by HUD housing programs; and

- * Preparing an annual report to Congress on the affect of federal housing policies on the housing of elderly, handicapped and homeless persons.

All the proposed "hot spots" in HUD should attract top flight people, especially the duties of the Assistant Secretary for Supportive Housing, who would lead a new division of HUD staffed with people whose skills and experience relate to housing and supportive services. This division would work closely with relevant offices in the Department of Health and Human Services and would establish relationships with state agencies administering supportive service programs. The division would be structured to give specialized attention to the distinct needs of each group -- particularly the elderly, the handicapped, and the homeless.

August 11, 1988

**NATIONAL AFFORDABLE HOUSING ACT
STAFF CONCEPT PAPER
FOR REVIEW NOT FOR RELEASE**

SUPPORTIVE HOUSING FOR THE ELDERLY

IN GENERAL

"Supportive housing" is housing that combines an appropriately designed building with a package of supportive services carefully tailored to the special needs of the tenants.

The National Affordable Housing Act will expand the supply of supportive housing to help elderly Americans "age in place" with dignity and independence. The Act will do so by:

- Restructuring HUD to implement supportive housing programs with a new division headed by an Assistant Secretary of Supportive Housing,
- Retrofitting existing federally-assisted housing to accommodate supportive services, and
- Reforming elderly housing production programs.

The Act will build on the successful experience of the Congregate Housing Services Program to create cost-effective alternatives to long-term institutional care. It will foster joint efforts by non-profits, private industry and federal, state and local governments.

Project Retrofit. The Act will support retrofitting of the existing stock of housing for the elderly so it can accommodate supportive services needed by frail elderly people.

Project Retrofit will have two fundamental elements:

1. States, localities and private organizations will be encouraged to make minimum 5-year commitments to fund supportive service programs in federally-assisted housing. Funding could come from a variety of sources, including a revised Medicaid or Medicare program, existing federal, state, local and private programs, and tenant contributions.
2. If a housing project has commitments from a state, locality, or other sources to finance an adequate level of supportive services, it will be eligible to receive

special HUD assistance for: (a) the employment of service coordinators, (b) the rehabilitation and retrofitting of existing elderly housing, and (c) the provision of supportive services temporarily unavailable from other sources. The Act will make such assistance available through newly authorized funds and existing funding sources, such as public housing operating subsidies, public housing modernization funds, and Section 202 reserves.

Housing for the Elderly Loan Fund. The Act will finance the production of elderly housing with a new program that improves on the 202 program in four ways. It will:

1. Produce almost twice as much housing within a given level of budget authority by providing assistance through forgivable loans rather than through the current method of requiring double budget authority -- both to make a loan and then to provide rental subsidies to repay that same loan.
2. Replace the current fair market rent limitation on development costs with a standard based on local construction costs. This will enable the program to operate in all areas of the country and remove the chief cause for delay in the current program.
3. Encourage developers of new elderly housing, from project inception, to meet the special service and design needs of frail elderly tenants.
4. Implement a number of reforms designed to streamline and expedite the application and development process.

The Act will continue the current statutory restrictions governing income eligibility for Section 202 housing.

PROJECT RETROFIT

Project Retrofit will make existing elderly housing better able to help frail elderly people age in place with dignity and independence. It will operate on an incentive basis, making new forms of HUD assistance available only to projects that have already received assurances of supportive service funding from states, localities or other sources.

Supportive housing services. The Act will encourage states, localities, and private organizations to provide supportive services in federally-assisted housing.

- * Requirements for supportive services. Services could include: meals adequate in sound nutrition, housekeeping aid, personal care, transportation, and health-related services. The Secretary will establish general guidelines that permit adaptation of support services to local differences in needs and resources.

Firm commitments would have to be in place to provide the services for at least five years, or for an appropriately longer period if Project Retrofit is to involve substantial rehabilitation.

- * Funding of Supportive Services. States and localities will be encouraged to use funds under existing federal programs such as the Social Services Block Grant (SSBG) or the Older Americans Act to expand supportive housing. The Act will offer conforming amendments to statute where that is needed to permit states and localities to achieve these reforms.

States will be encouraged to explore the use of Medicaid or Medicare to provide health care and other selected services in federally-assisted housing.

The Act will also authorize project managers to charge tenant recipients of services up to xx percent of their income for such services.

HUD Support. Once the Secretary finds that adequate commitments have been made to provide services, HUD assistance could take three forms:

1. Service Coordinators. An approved project will be permitted to hire a supportive service coordinator, who will be responsible for analyzing the service needs of the residents, negotiating with providers for those services, and monitoring the provision of supportive services within the housing facility.

Funding for their salaries could be provided in several ways. The Act will amend Section 9 of the Housing Act of 1937 to fund service coordinators in public housing out of the Performance Funding System. For Section 202 projects, the use of excess reserves would be permitted for this purpose. The Act will also authorize separate funding for cases where other funding sources are not available.

The Secretary will be authorized to establish minimum qualifications for persons eligible to be hired for such positions. The Secretary will establish such other standards as are necessary for sound management of the program.

2. Retrofitting Grants. The Act will amend Section 14 of the Housing Act of 1937 to include retrofitting as an eligible use of public housing modernization funds. Special grant monies will be authorized for other types of federally assisted housing.

Various types of renovation would be eligible. Projects could convert or expand existing space to provide for congregate dining, health-related clinics or other service facilities. They could widen doorways, install grab bars and provide other design features needed by frail elderly residents. The statute would prevent operating subsidies in public housing from being reduced as a result of Project Retrofit activities.

3. Special Initiative Grants. The Act will authorize small, flexible grants for particularly innovative projects if funding is temporarily unavailable from other sources. These grants will fill temporary gaps left by constraints in supportive service programs. The Secretary will be authorized to award a grant only after finding that (a) a jurisdiction has made reasonable efforts to use other available resources to fund the services, (b) the assisted activity will further the goal of helping frail elderly residents live independently, and (c) the long-term funding for the assisted activity will be available from non-federal sources. Grants to any one project will be phased out over no more than three years.

Application Process. Public housing projects, Section 202 projects and other federally subsidized projects owned and operated by nonprofits will be eligible to apply for Project Retrofit assistance. Grants will be awarded in a national competition.

Applications for assistance will need to contain a plan for the provision of services based on the needs and characteristics of eligible residents. The plan shall specify the needs of project residents who need supportive services or who may soon need such services as a result of the normal aging process.

Resident Eligibility. Individuals eligible to receive the supportive services will be current residents of the supportive housing and people eligible to be residents who:

- * Are at least 62 years old;
- * Suffer from a short-term disability, a permanent handicap or the consequences of the normal aging process; and
- * Would not be able to continue to live independently without some assistance.

HOUSING FOR THE ELDERLY LOAN FUND

The Act will continue the program now authorized under Section 202 of the Housing Act of 1959 with refinements to accommodate the need for supportive housing and to increase the number of units that could be produced at a given level of budget authority.

Forgivable Loan Plan. The Act will authorize the use of forgivable, long-term loans to finance the production of elderly housing by non-profit sponsors.

Under current policy, 40-year direct loans are made to nonprofit sponsors at interest rates that reflect the U.S. Government's average cost of borrowing. Once occupied, projects receive Section 8 rental subsidy, about 75 percent of which goes to pay principal and interest on the loan. Congress must allocate budget authority both to make the loan and then to repay it.

The Act will authorize interest free-loans to nonprofit sponsors for 100 percent of a project's development costs. Payments on the loan will be deferred for 20 years. Beginning with the twenty-first year, 5 percent of the principal will be forgiven for each year the housing serves low-income elderly tenants. The loan will thus be forgiven in its entirety after 40 years.

HUD will enter into a 20-year contract to fund the deficit between tenant rents and project operating costs. Tenants will pay 30 percent of adjusted income.

After the initial 20-year operating subsidy contract expires, HUD will have the option to renew the contract for 5-year increments. So long as HUD elects to renew a contract, repayment of the loan will not be permitted.

Limitations on Development Cost. The Act will allow project rents to be based on the actual, reasonable costs of building and operating elderly housing, after taking into account appropriate cost containment measures. The Housing and Community Development Act of 1987 adopted a similar standard for handicapped housing. The standard is equally appropriate for elderly housing.

Under the current Section 202 program, HUD limits development costs on the basis of Section 8 fair market rents (FMRs). This creates serious problems in many areas. Where FMRs are low, the 202 program cannot be used. Where FMRs are high, needlessly high development costs may be allowed.

The move to a cost-based system will ensure that all areas of the country can receive and use loans to develop elderly housing. It will also expedite production, since the use of the FMR system as a limit on development cost has been one of the major reasons for the long delays in moving projects to construction.

Supportive Housing. The Act will encourage developers of new elderly housing to adopt designs that accommodate supportive services that will enable tenants to age in place.

Projects that have received 5-year commitments from states, localities or other sources to fund an adequate level of supportive services will be eligible to receive additional HUD assistance. Such assistance will include higher operating subsidies to cover the cost of service coordinators, and special grants to fund particularly innovative services on a transitional basis. Such applications will be submitted simultaneously with applications to the Housing for the Elderly Loan Fund.

August 11, 1988

NATIONAL AFFORDABLE HOUSING ACT
STAFF CONCEPT PAPER
FOR REVIEW NOT FOR RELEASE

SUPPORTIVE HOUSING FOR THE HANDICAPPED

IN GENERAL

"Supportive housing" is housing that combines an appropriately designed facility with a package of supportive services carefully tailored to the special needs of the tenants.

The National Affordable Housing Act ("the Act") will expand the supply of supportive housing to help thousands of Americans who are either physically handicapped, developmentally disabled, or chronically mentally ill. The Act will do so by:

- * Restructuring HUD to focus attention on the needs of the handicapped, elderly, homeless and families with small children;
- * Creating a separate and improved handicapped housing production program; and
- * Expanding federal support of housing that helps handicapped people function independently and become integrated into the community.

Housing for the Handicapped Loan Fund. The Act will create a special program to finance the production of handicapped housing. The new program will continue federal support for the development of small and scattered site group homes and independent living facilities for handicapped people. The program will improve on the current Section 202 program in three significant ways. It will:

- * Encourage states to work more closely with sponsors of housing for the handicapped and provide special support services needed by handicapped people;
- * Produce almost twice as much housing within a given level of budget authority by providing assistance through forgivable loans rather than through the current method of requiring double budget authority -- both to make a loan and then to provide rental subsidies to repay that same loan; and
- * Streamline and expedite the application and development

- * Streamline and expedite the application and development process.

The Act will retain the income eligibility standards that now apply to Section 202 housing.

Integrated living. The Act will expand federally-supported decent, safe, and sanitary housing for handicapped persons in non-institutional settings that encourage handicapped persons to obtain employment, become self-supportive, and avoid isolation from general society.

The Act will encourage independent living in two ways:

1. Rental Assistance. The Act will authorize the Secretary to set aside funds from rental credit appropriations for the purpose of assisting handicapped persons. "Rental credits" will be a new form of rental assistance that will replace vouchers and Section 8 certificates. This special pool of five-year rental credits will be distributed to states and localities by national competition.

Applicant states and localities will need to demonstrate (1) strong cooperation between the jurisdiction's housing and health or mental health agencies and (2) the existence of an appropriate community support system for prospective recipients of rental credits. Each allocation will be of sufficient size to ensure economies of scale in delivering services to persons who require assistance on site.

2. Adaptable Housing. The Act will require states and localities participating in the HOP program to certify that xx percent of the units constructed or rehabilitated under the program have low-cost features to make them both accessible to handicapped persons and adaptable for use by non-handicapped persons.

HOUSING FOR THE HANDICAPPED LOAN FUND

The Act will amend the program now authorized under Section 202 of the Housing Act of 1959 to recognize the critical role of the states in financing support services for the handicapped population and to increase the number of units that could be produced within a given level of budget authority.

Separate Program. The Act will complete the separation of the elderly and handicapped housing production programs, a process initiated in the Housing and Community Development Act of 1987.

In the 1987 Act, Congress recognized that housing for non-elderly handicapped families could be more efficiently and inexpensively developed through standards and procedures tailored specifically to such housing. The 1987 Act specified that not less than 15 percent of total appropriations for the Section 202 program be used for the development of handicapped housing.

Separate authorization for handicapped programs will permit those programs to be administered by people who understand and are sensitive to the special needs of handicapped tenants. The Act will provide a streamlined program that responds efficiently and effectively to the special needs of the handicapped.

The Assistant Secretary of Supportive Housing will be responsible for ensuring that the needs of handicapped people are considered in HUD deliberations and in budget requests and other communications to Congress.

Application Process. The Act will allow states to apply for program loans on behalf of nonprofit sponsors. A state could do so either for all applications for handicapped housing or for those applications that address the needs of a specific handicapped population, such as the chronically mentally ill. Under current law, nonprofit sponsors apply directly to HUD.

The change will recognize and reinforce the vital role of states in providing special support services needed by residents of handicapped housing. The nature of those services will vary widely from project to project depending on the levels and types of impairment of handicapped persons living in a given project.

Forgivable Loan Plan. The Act will finance the production of handicapped housing by non-profit sponsors with forgivable, long-term loans.

Under current policy, 40-year direct loans are made to nonprofit sponsors at interest rates that reflect the U.S. Government's average cost of borrowing. Projects then receive Section 8 rental subsidies, 75 percent of which goes to pay principal and interest on the loan. Congress ends up allocating scarce budget authority both to make the loan and then to repay it.

The Act will authorize interest-free loans to nonprofit sponsors for 100 percent of a project's development costs. Payments on the loan will be deferred for 20 years. Beginning with the twenty-first year, 5 percent of the principal will be forgiven

for each year the housing serves low-income handicapped tenants. A loan will thus be forgiven in its entirety after 40 years.

HUD will enter into a 20-year contract to fund the deficit between tenant rents and project operating costs. Tenants will pay 30 percent of adjusted income. Project operating costs will be driven by the actual costs of building and operating handicapped housing, rather than by an artificial limitation, such as the Section 8 fair market rent system.

After the initial 20-year operating subsidy contract expires, HUD will have the option to renew the contract in 5-year increments. So long as HUD elects to renew the contract, repayment of the loan will not be permitted.

The forgivable loan approach will build on amendments to the Housing for the Elderly or Handicapped program contained in the Housing and Community Development Act of 1987 in two ways:

1. The 1987 Act authorized use of project-based rental subsidies to avoid serious limitations on development created by reliance on the Section 8 fair market rents. A forgivable loan would make the operating subsidy far less costly than the project-based rental subsidies.
2. The 1987 Act moved to base project rents on the actual reasonable costs of building and operating a given project, after taking into account appropriate cost containment measures. That method will be used in the new program.

EXPANSION OF "INTEGRATED LIVING" FOR THE HANDICAPPED

The Act will expand the supply of housing designed to help handicapped people become integrated into a community's life. In the past, housing for the handicapped tended to be facilities in which handicapped persons interacted primarily with people having similar handicaps. While such living may make sense for some, experts now believe it is better for many handicapped persons to live in "normal" housing that can be tailored to fit their special service or design needs.

The Act will expand opportunities for integrated living for low-income handicapped persons through rental assistance and adaptable housing.

Rental Assistance. The Act will authorize the Secretary to set aside a portion of the available rental credits for use by handicapped persons. "Rental credits" are the improved form of rental assistance designed to replace the current voucher and Section 8 certificate programs.

This special pool of rental credits will be administered by the Assistant Secretary for Supportive Housing. These rental credits will be used to help those handicapped persons who require both rental assistance and special support services or design amenities to live independently. Handicapped people would also be eligible for rental credits not in this special pool.

The special pool of rental credits will be distributed to states and localities by national competition. State and local applications will need to contain at a minimum:

- * A strategy for providing support services or design alterations appropriate to handicapped recipients of the rental credits. The need for services would be satisfied on a case-by-case basis, with some receiving services at home and others having access to a network of community services.
- * Evidence of effective cooperation between the jurisdiction's housing and health or mental health departments. Applicants will describe how they will provide (1) inspection and monitoring for housing quality, (2) appropriate supportive services, (3) assistance to recipients in the search for housing, and (4) information for landlords who rent to handicapped persons.
- * A description of the community systems able to provide support for prospective recipients of rental credits.

The Act will allow some flexibility in the fair market rents to reflect higher costs that may be associated with integrated living conditions. Apartments that are accessible to physically disabled individuals, for example, may be located in newer developments that carry higher rents. Flexibility in the FMRs will ensure that handicapped persons have a sufficient choice of housing and neighborhoods.

Tenant eligibility for the rental assistance program will be the same as under the production program.

Adaptable Housing. The Act will require states and localities participating in the HOP program to certify that xx percent of units constructed or rehabilitated under the program are accessible to handicapped persons and adaptable for use by non-handicapped people.

Federal housing programs have traditionally required that newly constructed or substantially rehabilitated projects include a small number of apartments designed for access by handicapped people. Two flaws in this policy were that handicapped people often did not rent the specially designed apartments and owners often had difficulty renting those units to non-disabled persons.

"Adaptable" housing design avoids these problems by providing apartments that are accessible to handicapped persons but which can easily be adapted to use by non-handicapped persons. Well designed units can be adapted without renovation or structural change because basic features, such as floor width and ground level entrances, are already part of the unit. Non-structural features may include adjustable counter and sink heights; removable cabinets that provide knee space under the work surface, kitchen sink or bathroom lavatory; and wall studding suitable for attaching grab bars. While adding construction costs estimated to be less than 1 percent, these features would permit changes to be made in a few hours without delaying occupancy by the new tenant.

August 9, 1988

**NATIONAL AFFORDABLE HOUSING ACT
STAFF CONCEPT PAPER
FOR REVIEW NOT FOR RELEASE**

SUPPORTIVE HOUSING FOR THE HOMELESS

IN GENERAL

The National Affordable Housing Act ("the Act") will extend authorization for the Stewart B. McKinney Homeless Assistance Act while making it easier for states and localities to coordinate assistance to the homeless.

The Act will strengthen a national network of responsive public and private institutions that:

- * Provide emergency shelter and relief for people who become homeless,
- * Offer comprehensive services to help homeless people reestablish independent living, and
- * Help the most vulnerable avoid homelessness.

Activities now authorized under the McKinney Act will continue to be supported: emergency shelters, transitional housing, permanent housing for handicapped homeless, SRO housing for the homeless, and supplemental assistance for facilities to assist the homeless.

The Act will reform McKinney Act funding procedures so as to:

- * Let states and localities determine how best to allocate assistance among eligible activities;
- * Give states and localities incentives to develop comprehensive, multi-year strategies to relieve homelessness;
- * Allocate resources with more predictability through a formula that takes into account regional incidences of homelessness; and
- * Reinforce exemplary homeless assistance programs, and support especially worthy projects with funding through a national competition.

These reforms respond to McKinney Act procedures that have tended to fragment homeless relief and undermine the ability of states and localities to coordinate effective assistance strategies. Many states and localities complain that it is often hard to keep track of McKinney Act funded activities in their jurisdictions.

Current law requires each participating jurisdiction to submit a Comprehensive Homeless Assistance Plan (CHAP). But key decisions about which activities will get funded rests with HUD rather than with the state or locality.

Emergency Shelter Grants are now distributed directly to states and localities by formula. However, funding under the other four programs is distributed by national competition to nonprofit organizations as well as government entities.

HOUSING ASSISTANCE FOR THE HOMELESS

McKinney Act Extension. The Act will extend authorization for the Stewart B. McKinney Homeless Assistance Act of 1987 (P.L. 100-77). Activities now assisted under the McKinney Act would continue to be eligible:

- * Emergency Shelter Grants. Assist the renovation and rehabilitation of buildings for use as emergency shelters for the homeless. Some essential services and operating costs are also eligible for support.
- * Supportive Housing Demonstration: Transitional Housing. Assists the acquisition and/or rehabilitation of housing that facilitates the transition of homeless persons to independent living. Some operating costs are eligible for support.
- * Supportive Housing Demonstration: Permanent Housing for the Handicapped Homeless. Assists the development of community-based, long-term housing for handicapped homeless persons.
- * Single Room Occupancy Dwellings (SROs). Provides rental assistance to spur the renovation of SROs, which typically have one-room apartments, shared bathrooms and no individual kitchen facilities.
- * Supplemental Assistance for Facilities to Assist the Homeless (SAFAH). Provides assistance for projects that propose innovative and comprehensive programs for homeless individuals or families. Also supplements

assistance provided under other homeless housing programs.

Funding reform. The Act will provide homeless assistance with greater predictability and flexibility of administration.

Each participating state and locality will receive a comprehensive formula grant at the beginning of the fiscal year and will be able to decide how to use those funds for eligible activities. In addition, states and localities will be eligible to apply for additional funding on a project basis in a national competition. Available funds will be allocated 80 percent by formula and 20 percent by national competition. Incentive funding for a jurisdiction could not exceed 50 percent of its formula allocation.

- **Formula allocation.** The Act will direct the Secretary, within 12 months of enactment, to develop a formula that distributes McKinney Act funding according to:

Incidence of homelessness,
Population,
Poverty, and
Shortage of housing affordable to low-income people.

Cities and counties with formula allocations of \$xx thousand or more will be eligible to apply directly for McKinney Act funding. If a locality's formula allocation is less than \$xx thousand, its amount will be allocated for administration by the state.

A participating locality whose formula allocation falls below the \$xx thousand threshold could continue to receive formula grants so long as the state makes up the difference between the locality's formula share and the threshold for participation.

- **Incentive competition.** Each participating state and locality will be able to submit homeless assistance projects in a national competition for funding. Eligible projects could involve the purchase, lease, renovation or conversion of suitable facilities to assist the homeless. Applications may also include the provision of supportive services designed to meet the needs of special categories of homeless people, including families with children, the elderly, the mentally ill, and veterans. The Secretary would be authorized to provide such limitations on project design as may be necessary to ensure compliance with the purposes of the Act.

Participating states and localities will apply on behalf of non-profit sponsors. Non-profit sponsors in a non-participating state or locality would be authorized to apply for funding directly.

The project selection will be based on (a) the exemplary value of the project, (b) the degree to which the project is a vital element of a comprehensive local system to provide assistance to homeless people, (c) the degree to which the project will provide assistance to homeless people who are most difficult to serve, (d) the degree to which the project will leverage resources from other public and private sources, (e) the length of time that the project sponsor has committed to provide assistance to the homeless, (f) evidence that the project will be implemented in a timely manner, and (g) the jurisdiction's past performance in administering housing for the homeless.

The Secretary shall, not less than twice during each fiscal year, reallocate any assistance provided under this program that is unused or returned or that becomes available from jurisdictions whose CHAP is disapproved.

Application Process. Each participating state or locality will be required to submit an expanded Comprehensive Homeless Assistance Plan that will provide:

- An inventory of facilities and services that assist the homeless population within that jurisdiction;
- A strategy to (a) match the needs of the homeless population with available services within that jurisdiction and (b) recognize the special needs of different categories of homeless people;
- A description of how the jurisdiction will allocate its formula allocation eligible activities to complement and enhance available services;
- A description of each project for which the jurisdiction will submit an application in the national competition; and
- Assurances satisfactory to the Secretary that funding under the Act will supplement and not supplant homeless assistance provided from other sources.

participants in self-sufficiency programs. All too often, a parent with small children must travel long distances to different locations to receive child care, education training, job training, and health care. The travel costs and the time requirements can be prohibitive.

Project Independence can also help renovate deteriorated public housing property to make the surrounding housing a more decent place to live.

PUBLIC HOUSING RENTS

The Act will amend Section 3(a) of the Housing Act of 1937 to exempt participants in self-sufficiency programs from rent increases while they are actively engaged in such programs and for a transitional period after finding employment. The exemption could last for no more than three years. Eligibility for public housing residency will continue for this period.

Rules regulating rents in public housing create a disincentive to work since increases in income precipitate increases in rent. Working low-income families who pay income and social security taxes face a reduction in their disposable income, but they receive no similar reduction in income in the rent calculations.

PUBLIC HOUSING TOMORROW

A Report by the Council of Large Public Housing Authorities

Chairperson: Daniel J. Wuenschel, Executive Director
Cambridge Housing Authority

September 1988

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Preface

In 1986, the Council of Large Public Housing Authorities published *Public Housing Today*, a detailed report on public housing operations nationwide.

Public Housing Today confirmed that our nation's public housing agencies shelter our poorest citizens, and help them gain the skills and education to become self-sufficient.

It also proved a growing number of the nation's poor, like the frail elderly, have special needs and depend on public housing for health care and special services, as well as shelter.

This new report goes one step further.

Public Housing Tomorrow explains how we can overcome the last eight years of public policy and prevent the worst housing crisis in the country's history. It shows how the federal government can keep its 50-year-old commitment to decent housing alive and help the working poor, unemployed and homeless who depend on public housing to survive in the 1990's.

The Council of Large Public Housing Authorities represents PHAs managing housing in medium to large cities. CLPHA members manage 1/3 of the nation's public housing and provide a wide range of special services, from job training to health care.

Summary of Recommendations

America's low-income population is rapidly outstripping its supply of affordable housing. The results are clear and well-documented: overcrowding, declining housing standards, and increasing homelessness, especially among families.

What's more, America's affordable housing supply is expected to shrink by another million units over the next few years. As federal subsidy contracts expire and federally insured project mortgages are prepaid, the owners of these assisted low-income units will be free to convert them to other uses.

America's public housing program produced over 1.4 million units of successful, low-income housing since 1937. It's America's oldest and most successful tool for building and maintaining low-cost housing. It can house more families for less, stabilize neighborhoods, and help the poor move up the economic ladder.

But, overregulation and an 80 percent cut in federal support since 1981 have made it all but impossible for the nation's 3,000 Public Housing Authorities to step in and fill the country's growing affordable housing gap.

Public housing now needs a renewed commitment from the federal government to provide safe, decent, sanitary and affordable housing for all Americans. The following recommendations are intended to renew our commitment to housing the poor.

Development

1. **Restore annual housing development to at least 30,000 new units through new construction, major rehabilitation and acquisition.** A sustained effort is needed to restore

the country's supply of decent affordable housing.

2. **Authorize PHAs to produce housing that fits local needs.** PHAs need the flexibility to use development funds for a broader range of projects.
3. **Replace HUD design standards with guidelines that help avoid the mistakes of the past.** Limit projects to 100 units¹ or less and emphasize attractive designs that blend with local styles.
4. **Don't merge public housing development into a housing block grant.** A separate program ensures a continuing commitment to housing the very poor.

Modernization and Redevelopment

5. **Provide \$2.5 billion a year to address the modernization backlog.** That's enough to handle the current backlog in 10 years or less.
6. **Adopt a new replacement reserve program to fund new modernization needs as they develop.**
7. **Make the modernization program more efficient.** Provide flexible guidelines and more autonomy to PHAs.
8. **Authorize special aid for projects with large vacancy problems and serious distress.** Use major redevelopment funds to make the worst units decent. Provide one-for-one replacements (where needed) or units that are sold or torn down.
9. **Carry out a safe and cost-effective program for the testing and abatement of hazardous materials in public housing (such as lead paint).**

Operations and Management

10. **Match the operating subsidy program to local needs.** Fill the gap between rent revenues and actual operating costs with a system that reflects today's economy, public housing clientele and regulations.

11. **Make funding of PHA operating subsidies at 100 percent of PFS needs mandatory.** Adjust the Performance Funding System's inflation factor to cover cost changes more accurately.
12. **Adjust PFS for special costs, like insurance.** Fund fast-rising costs, like insurance and employee benefits.
13. **Create incentives for better PHA management.** Allow PHAs to keep more of the savings that result from management improvements.
14. **Reduce overhead costs by deregulating HUD management of PHAs.** Gives PHAs the flexibility to address problems without detailed prior HUD approval.

Residents

15. **Adopt CLPHA's GATEWAY legislation.** Give PHAs the tools to help residents become more self-sufficient through job training and other services.
16. **Give PHAs the means to provide services for the elderly, frail elderly and other people with special needs.** Additional funds are needed to provide services and shelter.
17. **Give residents the opportunity to take on management responsibilities.** Resident management can provide job training and better projects.
18. **Allow households with a wider mix of incomes to live in public housing.** Let as much as 25 percent of a project's population earn 50 to 80 percent of median income.
19. **Allow PHAs to scale rents to tenant circumstances.** Make rents flexible, so PHAs can attract families with a wider mix of incomes.
20. **Reduce tenant rent contributions to 25 percent of income, especially for families.**
21. **Reform federal labor, welfare and homeownership policies to expand housing opportunities for the poor.** Coordinate all these areas to give poor Americans more financial security and better opportunities to improve their situation.

¹ Except in very large cities such as New York City where smaller developments are infeasible.

Section 8 Assistance

22. **Restore Section 8 administrative fees to 8.5 percent** so PHAs can serve more people, more effectively.
23. **Give PHAs more control over Section 8 Fair Market Rents.** Give PHAs more opportunity to argue for FMR changes that reflect local conditions.

Expiring Use Crisis

24. **Authorize PHAs to acquire units that would otherwise slip out of the affordable housing stock.** Start an emergency pur-

chase fund to minimize affordable housing losses to expiring subsidy contracts and mortgage prepayments.

Homelessness

25. **Authorize special operating subsidies and modernization funds to house the homeless.** Recognize emergency efforts are needed to repair and manage public housing units for the homeless.
26. **Support the use of SRO's to house the homeless.** Federal policy should encourage PHAs to manage single room occupancy buildings for the homeless.

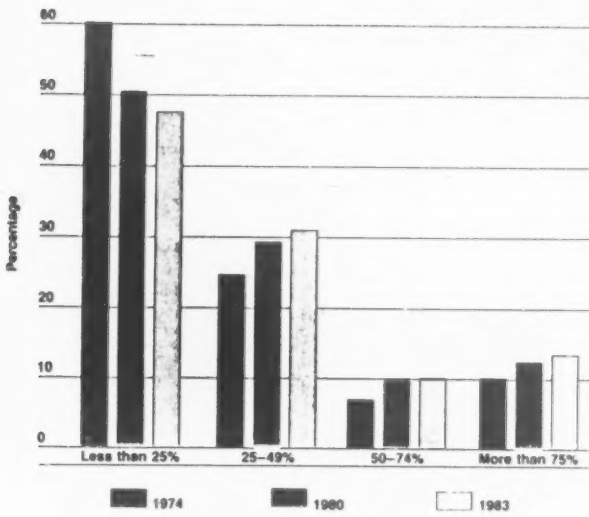


Figure 1

Figure 4
Escalating Rent Burdens: Percentage Distribution of Rent Burdens, All Renter Households, 1974 and 1983

Source for Figures 1 and 2:
H. James Brown and John Yinger, *Home Ownership and Housing Affordability in the United States, 1963-1985* (Cambridge, Mass.: Joint Center for Housing Studies of MIT and Harvard, 1986), p. 15; cited in *The Need for a New National Housing Policy: Recapturing the American Dream*, Temple University Press, 1988.

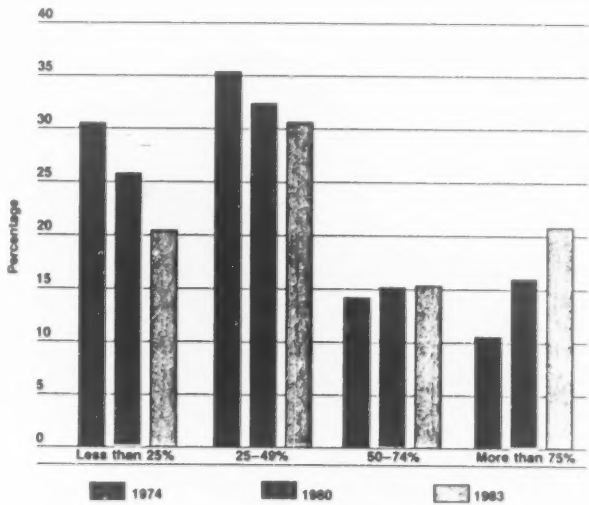


Figure 2

Figure 7
Percentage Distribution of Rent Burdens, Lowest Income Class, 1974, 1980, and 1983

When the Government Won't Build Housing, It Builds A Crisis

Decent housing is fundamental to the health of American families. It stabilizes our communities and lays the foundation for jobs, education and the quality of life all Americans deserve.

Yet America's low-income population greatly exceeds its supply of low-cost housing.

Worse, federal support for more low-income housing — or even for preserving the housing we have — is at an all-time low.

So, it's no surprise homelessness is reaching crisis proportions. Or, that thousands of American families are threatened by the shortage of affordable housing.

Americans were once the best housed people in the world, but the federal government has all but abandoned its commitment to good housing. The results are obvious and well-documented. Dr. William Apgar of the Harvard/MIT Joint Center for Housing Studies cites the following trends that developed between 1974 to 1983.

- Rents at the low end of the housing market increased much more rapidly than average incomes. (See Figures 1 & 2)
- Low-income households paid as much as half their incomes for rent, leaving little for food, clothing, transportation, education, savings and other necessities.
- Federal assistance failed to keep pace with the loss of privately-owned rental units. The total number of affordable units is still shrinking at an alarming rate.
- Low-income households increased from 8.4 million to at least 11.9 million between 1974 and 1983, according to Apgar.
- The rising cost of homeownership forced more middle-class families to compete with lower-income families for the same limited supply of rental housing.

Lower-income families are losing the battle in the private housing market. What's especially alarming is that their traditional housing alternatives are disappearing at the same time their numbers are growing.



Housing is in a crisis because the federal government is in retreat.

Between 1981 and 1987, annual federal housing authorizations plunged from \$30.2 billion to \$7.4 billion. Since 1982, public housing construction sank from 30,000 units per year to an average of 2,200 per year.

No wonder public housing waiting lists have exploded since 1981. New applicants often wait years for a unit. More and more public housing authorities are closing their lists altogether. A U.S. Conference of Mayors survey found closed waiting lists in 68 percent of the cities surveyed.

Worse, the foreseeable demand for lower-income housing will only go up. Hundreds of thousands of privately-owned, federally subsidized units are in danger of being lost through mortgage prepayments and expiring subsidy contracts over the next few years.

Although states, local governments, PHAs and many non-profit organizations are responding to federal housing cuts with innovative programs, their efforts are woefully short of the full-scale federal commitment that's needed.

ELIMINATION OF UNFIT WELFARE HOTELS

The Act will provide a strategy for eliminating the outrage of welfare hotels.

The Act will provide that, beginning 6 months after enactment, a state or locality will be authorized to use emergency assistance funds to pay for temporary housing in a welfare hotel only if the Secretary of Health and Human Services certifies that:

- * The rent levels are appropriate,
- * The facility provides decent, safe and sanitary living conditions, and
- * The state or locality has an approved strategy for providing a supply of transitional housing sufficient to eliminate reliance on welfare hotels within a reasonable period of time.

The Secretary of HUD will be directed to provide such technical support for this effort as may be needed.

Appropriate rents. The Secretary of HHS will be directed to establish a fair rental rate for each welfare hotel. The Secretary shall evaluate each facility to determine the reasonable cost for operations, maintenance, and security, taking into account the special needs resulting from a transient tenant population. Economic rents for units in the facility will be established taking into account these costs, other financial considerations relevant to the facility, and a reasonable profit. States and localities would be prohibited from using federal funds to pay more than xx percent of that economic rent.

Housing quality standards. The Secretary of HHS will be directed to conduct regular inspections of welfare hotels to ensure that living conditions are decent, safe and sanitary according to standards appropriate to a single room occupancy residence. The Act would provide a reasonable period of time to correct violations before sanctions are imposed. States and localities would be prohibited from using federal funds to house people in facilities that fail to meet these standards.

Strategy for eliminating welfare hotels. Each state and locality using welfare funds to house homeless families in commercial hotels and motels will be required to develop a 5-year strategy, satisfactory to the Secretary of Health and Human Resources, for eliminating their use.

When allocating resources, the Secretary of HUD will be authorized to give additional consideration to activities the Secretary determines are necessary to implement a 5-year strategy under this section. Programs under which this additional consideration could be provided include incentive grants under the HOP and McKinney Act programs as well as the Comprehensive Improvement Assistance Program.

Contracts for compliance. The Secretary of HHS would be authorized to enter into contracts with owners of commercial hotel and motel facilities to guarantee the timely payment of rents approved under this section in return for the owner's agreement to maintain housing quality standards.

August 10, 1988

NATIONAL AFFORDABLE HOUSING ACT
STAFF CONCEPT PAPER
FOR REVIEW NOT FOR RELEASE

SUPPORTIVE HOUSING FOR FAMILIES

IN GENERAL

"Supportive housing" is housing that combines an appropriately designed building with a package of supportive services that is carefully tailored to the special needs of the tenants.

The National Affordable Housing Act will help low-income families with small children who are working to make a transition from dependence on welfare. The Act will do so by providing facilities needed for programs that lead to self-sufficiency and by amending current rules for public housing rents to remove disincentives to obtain employment.

Welfare reform will disproportionately affect residents of public housing. An estimated 50 percent of all public housing households receive AFDC benefits; in some projects, the proportion rises to 85 percent. Services located in public housing could be provided more efficiently and conveniently.

Project Independence. Facilities in or near public housing will be eligible for renovation to provide day care, training, and other assistance for parents who are working or preparing for employment. Project Independence will:

- Encourage states, localities and private organizations to locate supportive services in or near public housing projects. Program funding may come from a variety of sources, including federal welfare reform and child care legislation now under consideration as well as existing federal, state, local and private programs.
- Provide HUD financing to (a) hire on-site service coordinators, (b) renovate facilities to accommodate supportive services, and (c) provide supportive services temporarily unavailable from other sources. Assistance will be available through public housing operating subsidies, public housing modernization funds and new authorizations.

The Act will prevent a PHA from losing federal funds if it combines adjoining apartments to create space for a self-sufficiency program.

Removing work disincentives. The Act will exempt residents from increases in rent while they are actively engaged in a self-sufficiency program and for a transitional period after finding employment.

PROJECT INDEPENDENCE

Project Independence will operate on an incentive basis, making new forms of HUD assistance available only to public housing projects where funding for a self-sufficiency program is assured. HUD funds would thus be leveraged by service funding from other sources.

Location of self-sufficiency programs in public housing. States, localities and private organizations would be given added incentives to locate self-sufficiency programs where they are most convenient for many low income people.

The Secretary will develop criteria for determining that a self-sufficiency program is eligible for Project Independence. Such services might include child care, adult education, computer literacy, job training, and health care. The criteria will serve as general guidelines giving states and localities flexibility in program design.

States or localities would have to agree to locate a self-sufficiency program on the site for a minimum of 5 years. If the project would involve substantial rehabilitation, the Secretary would have to find reasonable assurance that the services would be provided for longer periods of time.

HUD Support. HUD assistance will be provided only to those public housing projects that have received satisfactory commitments of supportive service funding from states, localities, or other sources.

HUD assistance will take three forms:

1. Service Coordinators. The Act will authorize HUD to provide funding to hire supportive service coordinators. The Act will amend Section 9 of the Housing Act of 1937 to make the salaries of such coordinators eligible costs under the Performance Funding System.

The service coordinators will be responsible for analyzing the service needs of the residents, negotiating with providers for those services, and monitoring the provision of supportive services within the public

negotiating with providers for those services, and monitoring the provision of supportive services within the public housing project.

The Secretary will be authorized to establish minimum qualifications for persons eligible to be hired for such positions. The Secretary will establish such other standards as are necessary for sound management of the program.

2. Renovation activities. The Act will amend Section 14 of the Housing Act of 1937 to allow use of modernization funds for renovation of public housing facilities to accommodate self-sufficiency programs. Such renovation could involve diverse activities, such as the conversion of apartments into a central facility (such as the Family Learning Center in Baltimore) or the renovation of an entire building to serve as a satellite support center for scattered projects.

The Act will amend Section 9 of the Housing Act of 1937 to prevent a PHA from losing Federal operating subsidies when it converts apartments under Project Independence. Current regulations discourage such activities by decreasing operating subsidies when apartment are converted.

3. Special initiative grants. The Act will authorize HUD to provide flexible grants for urgently needed supportive services where other sources of funding are temporarily unavailable. The Secretary could award a grant only after finding that:

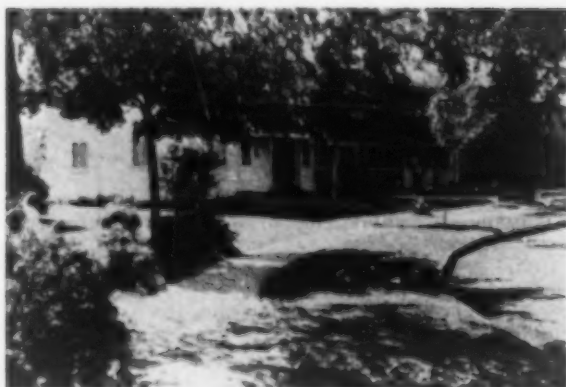
- The applicant has made reasonable efforts to use other available resources to fund the services,
- The service is needed to help heads of households make the transition to independent living in a cost-effective manner,
- The service is urgently needed, and
- There are reasonable assurances that long term funding for the assisted activity will be available.

Grants to any one project will be phased out over no more than 3 years.

Project Independence will enable states, localities and private organizations to make needed services more accessible to



Public housing design has evolved from high-rise to small, efficient projects that blend into their surrounding neighborhoods.



Only the federal government can provide the support and direction necessary to:

- Preserve and expand the supply of affordable housing for our rapidly growing population.
- Reverse the 70 percent cut made in low-income housing programs since 1981 and spend at least \$2 billion a year developing public housing.
- Make it easier, not harder, to build and manage low-income housing. Federal requirements should encourage, not discourage, efficient public housing.

This document demonstrates the need for a new federal policy that will preserve the housing we have, bring new housing to the homeless, and help low-income families up the economic ladder to self-sufficiency and in some cases to homeownership.

These goals deserve our highest priority. They were compelling in 1949 when Congress passed the National Housing Act that promised decent, safe and sanitary housing for every American. They are critical today and, by the look of things, they will be even more urgent tomorrow.

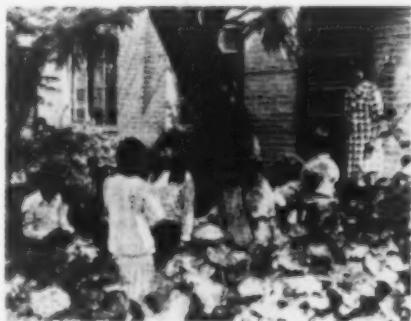
Contrary to Popular Images, Public Housing Works

Public housing has been the low-cost housing alternative for American families since 1937. Today over 3,000 PHAs manage more than 1.4 million units of affordable housing. Unfortunately, that doesn't come close to meeting today's demand, let alone tomorrow's.

Public housing was created in the late 1930's primarily to house the working poor, improve slums and provide construction jobs. Most projects were small, one-to-three story buildings — many of which are still providing good solid housing today (and prove the value of well-built public housing).

When the 1950's arrived, public housing's character began to change. Some cities experimented with enormous high-rise developments. These huge "mega-projects" were criticized as ill-conceived, too dense, and unmanageable when they appeared. Unfortunately, time has proven the critics all too correct. Fortunately these massive projects were the exception — most construction favored smaller designs. (See photos at left)

In the 1960's, public housing's population changed. Large numbers of working families took advantage of federal mortgage insurance programs and became homeowners (in suburbs



Public housing can foster strong neighborhoods and community spirit.

linked by federally funded highways). These households were increasingly replaced by extremely poor ones who often depended almost entirely on welfare to survive.

Because the newer residents had lower incomes, they couldn't afford even public housing's low rents. Congress responded by capping tenant rent payments at 25 percent of tenant income: the first so-called "Brooke Amendment."

Answers to the Twenty Most Asked Questions About Public Housing

Program Dimensions:

- ◆ 1.37 million units under the Federal public housing program (another 600,000 or so subsidized through state and local programs)
- ◆ About 330 million (or 24%) of these are in developments designed for the elderly. About 38% of public housing households are elderly, reflecting the substantial number of elderly living in mixed-age projects.
- ◆ Public housing is still the largest federal subsidized housing program:

Public housing	1.37 million units
Sec. 8 existing	1.35 million
Sec. 8 new constr.	.77 million
Sec. 236	.53 million
- ◆ Regions with the greatest number of public housing units:

Southeast	276,000 (3,366 projects)
N.Y. - N.J.	236,500 (918 projects)
Great Lakes	216,300 (2,007 projects)
- ◆ Number of housing authorities: 3,200
Vast majority manage fewer than 200 units.

Tenants:

- ◆ Average income of tenant households is \$5,000 to \$6,000, a bit higher among families than elderly.
- ◆ Average rent paid by tenants: estimated \$115/month
- ◆ About 38% of all households are elderly (headed by someone 62 or older), and a substantial number of these live in mixed-age developments.
- ◆ Roughly one-third of the non-elderly have an employed household member; the great majority of the elderly rely on social security as their only major income source.

Sample Qualifying Incomes for Public Housing

City	Family of 2	Family of 4
Boston	\$16,187	\$20,250
Baltimore	13,937	17,437
Chicago	15,843	19,812
Sacramento	13,165	16,906
Los Angeles	14,187	17,750
Houston	15,937	19,906

Based on 1988 HUD data.

Figure 3

As a direct result, PHAs couldn't collect enough rent to cover their costs. Repairs started to mount, and projects began to fall into disrepair. Congress quickly passed a second Brooke Amendment giving PHAs an operating subsidy to cover the difference between rental income and operating costs.

This subsidy was intended to support routine PHA operations. Unfortunately, it wasn't enough to cover emergencies or most capital improvements. Important repairs went begging. By the late 1970's many projects were in poor condition; some units were plainly uninhabitable.

But instead of abandoning the nation's multi-billion dollar investment in low income housing, PHAs and Congress found new ways to make public housing more effective.

1. The design flaws of the mega-projects were carefully noted and new developments were designed to smaller scale.
2. More attention was paid to designing projects that would fit the special needs of the new kinds of tenants coming to public housing, especially the elderly.
3. Most important of all, public housing's repair needs were acknowledged and the first modernization programs were created.

Today public housing is a permanent source of shelter to families and individuals who simply don't have the money to compete for other kinds of housing. Public housing enables millions of Americans to live in inexpensive clean homes, secure that they won't be displaced by a condo conversion or a rent hike.

Why Public Housing is Better

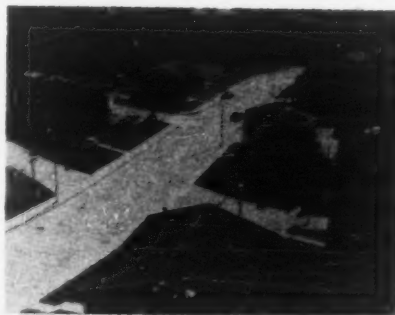
Public housing is less expensive, more versatile and more dependable than other federally assisted housing programs. It targets the individuals and families least able to compete for housing.

It serves America's poorest citizens.

Eligibility for public housing is limited by law to households with incomes no higher than 50 percent of an area's median income. This is the bottom of the economic ladder.

Let's put it another way. To be eligible for public housing in the following cities, your family would have to have an income at or below the levels shown in Figure 3.

It is plainly impossible for the private sector to serve the same people without massive federal subsidies. Even with project-based subsidies through Section 8 or subsidies through tax in-



The 311 attractive public housing units in Glen Hazel make up one of Pittsburgh's most attractive communities.

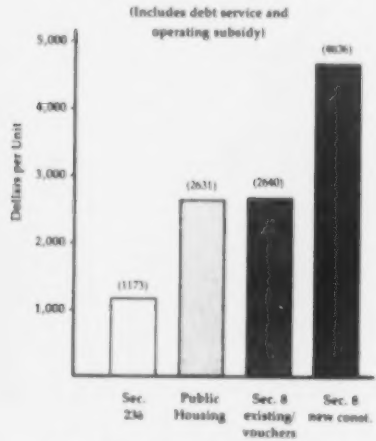
centives, most private rental housing owners won't serve people as badly off as the people who live in public housing!

Figure 4



Public Housing is often the only affordable shelter for thousands of low-income families.

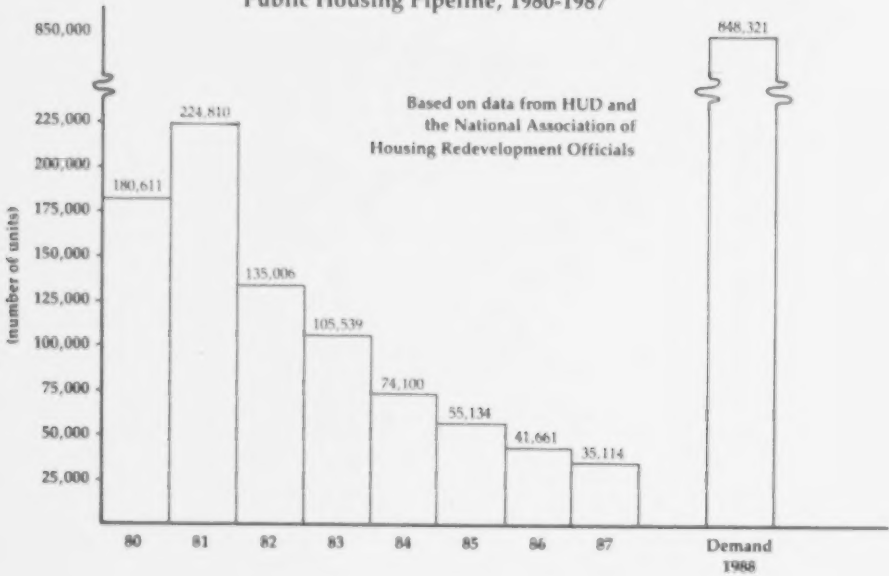
Subsidy Cost Per Year of Major HUD Housing Programs



Source: HUD Budget documents, 1985 est.

Figure 5

Public Housing Pipeline, 1980-1987



Public housing is cheaper over the long run than other housing programs.

One unit of public housing costs the taxpayers an average of \$2,631 per year. By contrast, a unit of Section 8 new construction costs \$4,636. Public housing also lasts longer than the term of the debt that finances it for additional cost reductions over the life of the project.

Plus, public housing's appreciation accrues to the public and its subsidy costs do not have to keep pace with private rents, so tenants are insulated to a higher degree from inflation. Unlike

the Section 8 or housing voucher programs. (See Figure 4)

Public ownership means public housing will stay affordable and available.

That's an important advantage over privately owned, subsidized housing, which owners can turn into high cost apartments when subsidy contracts expire or mortgages that set aside units for low-income people are prepaid.

How Public Housing Can Help

In order to meet the growing needs of the population and provide insurance against the potential loss of over one million subsidized low-income units from other federal programs, CLPHA strongly urge the following actions:

Get the public housing development pipeline moving again.

The federal government backed out of the housing business in 1981 and the public housing development pipeline is now all but depleted. (See Figure 5)

But, homelessness and substandard housing are not temporary problems. Temporary shelters can't solve them. The supply of low-income housing must increase. That's why it's time to get the federal government back into housing.

We recommend the following actions in 1989:

1. **Restore annual public housing development to at least 30,000 new units through new construction, major rehabilitation and acquisition.**

Reopen the pipeline now. Expanding the public housing supply is essential. Especially, in



The federal government must produce 30,000 public housing units each year to keep up with the national demand.

view of the crushing demand that will appear in the early 1990's when thousands of federal subsidy contracts and low-income use restrictions could expire.



Over 34 percent of the nation's public housing need less than \$5,000 in repairs.

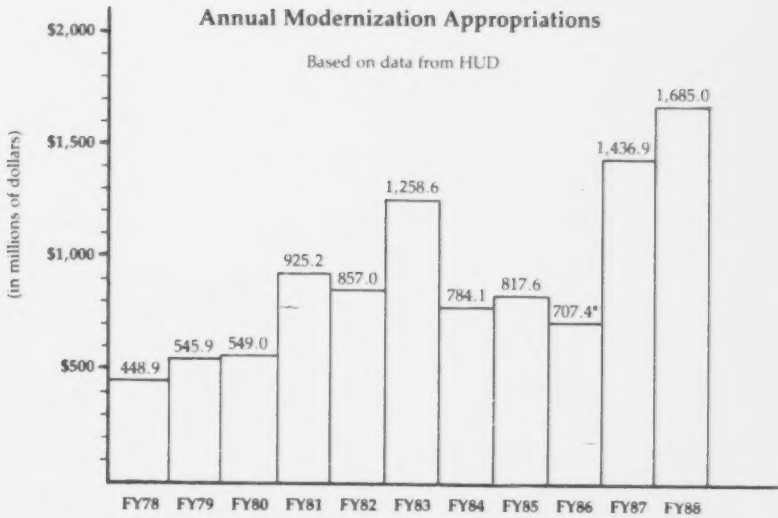
Figure 6

Distribution of Modernization Needs

Under \$5,000	30.8%
\$5,000-9,999	23.6%
\$10,000-14,999	13.3%
\$15,000-19,999	13.7%
\$20,000-24,999	5.6%
\$25,000-29,999	6.0%
\$30,000-34,999	3.9%
\$35,000 +	3.3%

Percentage of total units in each category of modernization needs based on 41 large PHAs with 226,040 units. (Excludes New York and Chicago)

Figure 7



* excludes \$47 million set-aside for obsolete projects.

2. Authorize PHAs to produce housing that fits local needs.

Make the development program adaptable so PHAs can respond to the marketplace — like any other business — and produce the most cost-effective housing possible. To accomplish this, PHAs need the freedom to use development funds for a broader range of projects than is currently allowed.

Specifically, give PHAs the authority to acquire condominiums or limited equity cooperatives, write down construction costs for non-profit developers, or even enter long-term subsidy contracts with non-profits or community development corporations (CDCs) that set aside units for very low-income people.

3. Replace HUD design standards with guidelines that avoid the mistakes of the past.

Limit new public housing development to projects with fewer than 100 units, except in those urban centers where larger projects are cost-effective. Design standards, that let PHAs produce reasonably attractive housing that blends with local architecture and still contains a modest number of amenities, are urgently needed.

Recent history continuously shows that this approach works best. That's why so many of the small public housing projects built in the 1930's and 1940's continue to provide good housing, while many of the massive projects of the 1950's and 1960's have turned into economic and social problems.

4. Don't merge public housing into a housing block grant.

Continue to provide PHAs with a separate development program.

Public housing serves the poorest and most politically powerless people in our society and could not compete with other worthy, but less targeted, programs under a block grant.

Restore public housing to full occupancy and decent quality.

While most public housing is in reasonably good shape, there is an obvious need for more modernization money to repair a relatively small

number of deteriorated units and to keep the rest of the inventory from falling into disrepair.

Two recent studies from Abt Associates and CLPHA both conclude the total need for modernization ranges from \$18 to \$20 billion or more.

That averages out to \$12,000 to \$15,000 per unit — which is not a large sum when you consider what it's buying, the age of the housing, and the years of neglect. It's also a fraction of the estimated \$60,000 it now takes to build a new public housing unit.

But, few units need that much money for repairs.

The CLPHA study indicates 34 percent of the nation's public housing can be modernized for less than \$5,000, and an additional 25 percent can be fixed for less than \$10,000. (Only 5 percent of the units need major redevelopment or demolition.)

Figure 6 illustrates the estimated distribution of modernization needs.

This means PHAs can bring a substantial amount of affordable housing to most markets for as little as \$5,000 a unit! Unfortunately, there is not nearly enough modernization money to do the job. (See Figure 7)

What's more, the federal government isn't getting as much mileage as it should from its modernization dollars. This "cost-ineffectiveness" is mainly due to overregulation and the lack of PHA control over what gets repaired and when.

We recommend the following action in 1989:

5. Provide \$2.5 billion a year to address the modernization backlog.

That's enough to complete the nation's backlog of public housing modernization in 10 years or less.

6. Adopt a new replacement reserve program that stops new backlogs from forming.

Establish a replacement reserve program that would provide a reliable and predictable annual replacement allowance to cover routine repairs and capital improvements.

7. Make the present modernization program more efficient.

It can take years to create a new federal program. But the country's need for modernization



Trees, landscaping and new facades transformed Jefferson Park in Cambridge, Massachusetts, from an eyesore into an attractive, award-winning development.



relief is immediate. As an interim step, make the existing CIAP program more responsive to local needs and easier for PHAs to use.

To accomplish this, more flexible cost guidelines and construction schedules are needed to help PHAs complete complex work in a cost-effective manner. What's more, HUD field staff should implement and interpret program rules uniformly and provide PHAs with training sessions on program rules.

For example, a revised modernization program would: (1) give PHAs more autonomy and flexibility to carry out their own modernization activities; (2) make HUD and PHAs more accountable for ensuring that overall modernization plans which bring public housing up to code are made and executed; and (3) ensure a high quality of workmanship so repaired units are fixed to last.

8. Authorize special aid for projects with large vacancy problems and serious distress.

Require PHAs to prepare and submit preliminary plans that show proposed treatments

for projects with problems requiring more than CIAP — or any new modernization program — can reasonably be expected to handle. Second, use "major redevelopment" funds to bring these projects back into service.

In some cases, PHA preliminary plans will show redevelopment is not appropriate, and demolition or disposition is. Additional funds are needed to replace units that are sold or torn down on a one-for-one basis.

9. Invite manufacturers to design better equipment for detecting and removing lead-based paint hazards.

PHAs are still waiting for practical equipment to test and remove lead paint hazards. The fluorescent X-ray analyzers now available are too expensive, too cumbersome and too unreliable for PHAs to seriously consider. Invite equipment manufacturers to develop better tools for eliminating lead-paint from public housing.

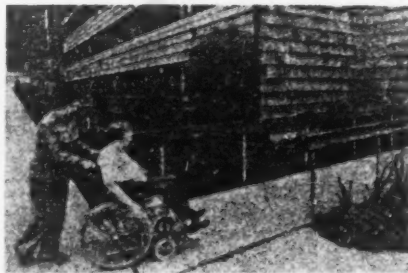
Also, HUD, a panel of PHAs and others should work out better estimates of the cost of removing lead paint, radon and other hazards from public housing.

Public Housing Costs Are Rising Because Public Housing Must Do More

Public housing's role — and costs — have changed dramatically over the past decade. It's not just housing anymore. It's also job training, day care, and social support for very poor people with very serious financial, medical or mental health problems.

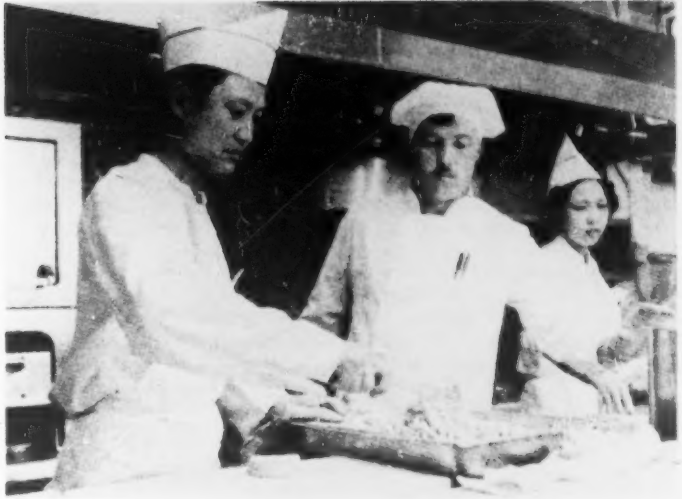
These special services take money and resources. As a result, the gap between public housing rent revenues and operating costs is wider than ever. PHAs are also grappling with the rapid rise in insurance premiums, security costs, and payroll requirements. As a result, many PHAs may cut back on the services that are in most demand.

The federal government's ad hoc responses to public housing's unexpected costs are inadequate.



Special services and construction for residents with serious needs are straining public housing budgets.

On-the-job training
for Cambridge public
housing residents.



The Family Learning Center at this
Minneapolis project takes care of
children while their parents attend
classes.



quate. While they may buy a little time, they miss the basic point: public housing's costs have fundamentally changed since 1975, the year Congress approved the current operating subsidy formula.

Even in 1975 the operating subsidy Performance Funding System didn't come close to covering the costs of the nation's 48 largest PHAs. After 13 years, that gulf is wider than ever.

A new formula is needed to help PHAs provide job training, day care and other services the current PFS doesn't fully cover. It must also reflect the special needs of the very low-income families, elderly households, and people with special problems (like substance addictions and mental illness) who are moving into public housing.

Another factor the new system must consider is the severe social deterioration that paralyzes many public housing projects, especially those in older, inner cities. (Current operating subsidies are calculated to maintain housing under reasonable conditions but are woefully inadequate for these projects.)

Finally, the new system should cover increased costs created by insurance hikes, HUD rule changes, and economic fluctuations.

In short, the new funding system should provide PHAs with the funds to cover their expanded roles and provide PHAs with a systematic appeals process — and enough funding — to take care of major inequities.

Therefore, we recommend the following action in 1989:

10. Change the operating subsidy program to match local needs.

Revise the funding system to fill the gap between rents and the actual costs PHAs face in today's economy and regulatory environment. Specifically, the system should enable PHAs to provide essential services and maintain professional real estate management standards.

Change the operating subsidy program to (1) give PHAs more control over their own budget priorities, so they can meet their most important costs first, and (2) create a special appeals process where PHAs can argue for additional subsidy to cover unanticipated cost increases.

11. Make funding of PHA operating subsidies at 100 percent of PFS needs mandatory.

Adjust the current PFS formula inflation factor to levels that provide PHAs with the funds to cover their actual costs. Without additional funds on a consistent basis PHAs are unable to cover the high cost of managing housing for people with special needs and helping residents in America's most deteriorated areas.

12. Adjust PFS for special costs, like insurance.

Adjust operating subsidy allocations to fully cover fast-rising costs beyond the control of PHAs, like insurance, employee benefits, and building security.

13. Create incentives for better PHA management.

New financial incentives to promote better management can reduce PHA reliance on federal subsidies. For example, by allowing PHAs to keep 100 percent of any savings obtained from energy improvements the federal government can help control federal utility payments.

14. Reduce overhead costs by deregulating HUD management of PHAs.

Give PHAs the flexibility to address problems without spending weeks (or months) seeking prior HUD approval. Limiting HUD's management role to back-end reviews and audits would enable PHAs to meet emergencies faster and produce significant long-term savings in money and man-hours for both HUD and the PHA.

What's more, HUD, the Farmers Home Administration and other federal agencies affecting public housing should simplify and coordinate their rules to give local officials a greater voice in determining how their programs are run.

Help residents become self-sufficient

Without the skills to earn a living, public housing residents have little or no chance to improve their situation, which means longer terms of tenancy, more dependency on welfare, and more American families on the brink of collapse.

Wilmington Housing Authority staff meet with Family Tenant Council presidents at a monthly meeting.



Congregate Housing Services Program workers prepare meals for homebound residents.

In order to furnish residents with a better chance at self-sufficiency, more and more PHAs provide residents with on-site job training and day care. But these efforts are operating on a small scale, mainly because of a lack of federal support.

We recommend the following actions in 1989:

15. Adopt CLPHA's GATEWAY legislation.

CLPHA's GATEWAY legislation would give PHAs the tools to provide better job training, day care and services that can help public housing's very low-income residents increase earnings and move up the economic ladder.

Small scale GATEWAY programs in individual PHAs now provide low-cost health care and training centers where residents learn to operate computers.

16. Give tenants the opportunity to take on management responsibilities.

Give residents more opportunities to work with PHAs on day-to-day management issues, such as identifying maintenance and modernization priorities, developing resident services and combatting crime and drug problems. Resident management can help break down walls between PHAs and residents, train residents in important job skills, and improve local project conditions.

Restore Public Housing's Stable Population

The fact that public housing's residents are poorer than ever not only cuts into PHA rent revenues, it destabilizes projects. As working families leave public housing, projects often see increased crime, vandalism and other social problems that drain revenues, increase federal costs, and create an ominous ghetto mentality.

The answer: attract a stable, working population back to public housing. Not only would public housing's reliance on operating subsidies decrease, the tenor of life would improve and help unite neighbors into neighborhoods.

Unfortunately, current federal rent and income policies work to exclude the families who can help public housing most.

To reverse those policies, rents must be adjusted to fit each tenant's situation. And, while some of the following proposals would apparently reduce PHA income, in fact they'd add revenues as the working poor — and their ability to pay higher rents — came back to public housing.

We recommend the following changes for 1989:

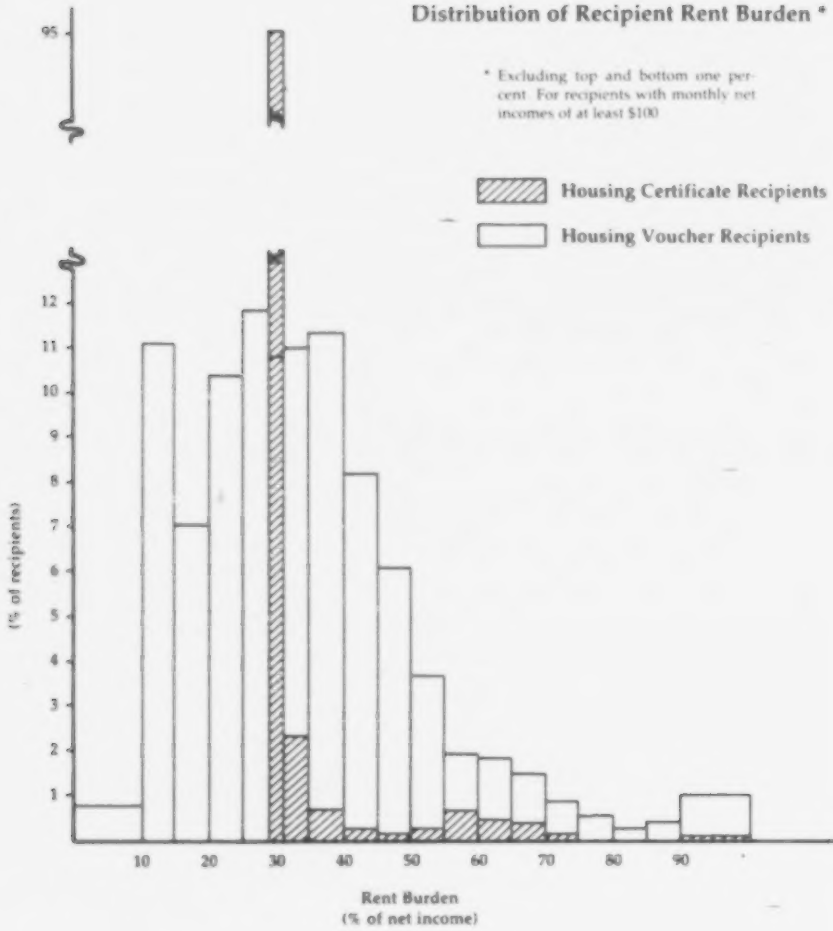
17. Support legislation allowing households with a wider mix of incomes to live in public housing.



Diverse populations harmonize in this New York City project.

Allow up to 25 percent of a PHA's population to consist of families earning 50 to 80 percent of the area's median income (i.e. the working poor) to increase project revenues and stability.

Figure 8



18. Support legislation allowing PHAs to scale rents to tenant circumstances.

Give PHAs the flexibility to set appropriate rent levels within a predetermined range in order to attract families with a wider range of incomes. Extend the allowable time period for ceiling rents beyond the current three years so the working poor can stay in public housing longer. And give PHAs the discretion to cut rents in buildings with too many vacancies in order to attract new residents.

19. Support legislation reducing tenant rent contributions.

Cut the current 30 percent cap on tenant rent contributions to 25 percent and allow a wider range of income deductions for a longer time after a tenant's income increases to encourage to work. Also, allow tenants who find employment to maintain their eligibility for other federal benefit programs, like Medicaid, so they aren't penalized for working.

Section 8: It's Time To Improve One of the Most Successful Housing Programs Ever Tried

The Section 8 certificate program has an exceptional record for housing low-income families. It should be expanded, not abandoned.

What should not be expanded is the housing voucher program, a 1983 knock-off of the existing Section 8 program. The voucher program's present policy of allowing tenants to pay unlimitedly high rents is unconscionable. In some cases, voucher holders pay anywhere from 50 percent to — an unbelievably high — 90 percent of their monthly incomes on rent.

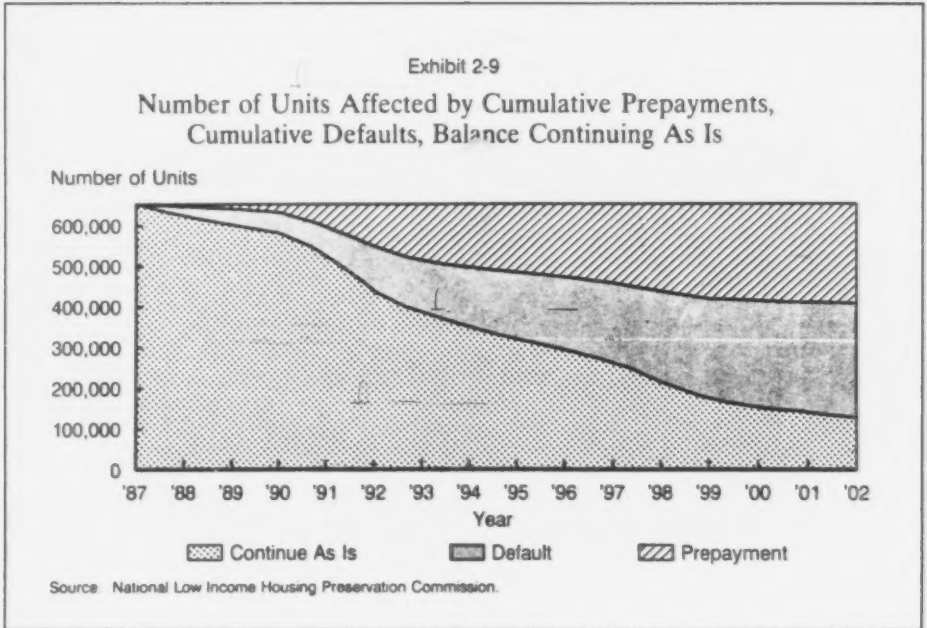
Vouchers not only have the potential to be more expensive than certificates, they can foster precisely the sort of rent burdens that subsidy programs like Section 8 were intended to prevent. (See Figure 8)

If future studies prove some aspects of the voucher program are worthwhile, such as the five year contract term, these features can be incorporated into the Section 8 existing program. PHAs and HUD could then avoid the dilemma of administering competing programs and the Section 8 certificate program would be made more effective than ever.

Despite its success, the Section 8 program is hampered by administrative fees that don't



Figure 9



cover PHA costs and onerous procedures for setting the Fair Market Rents that determine the maximum rents of units certificate holders can occupy.

To make Section 8 even better, we recommend the following for 1989:

20. Restore Section 8 administrative fees to 8.5 percent.

The increase would help PHAs undertake more thorough inspections and ensure the quality and rent reasonableness of the units selected by certificate holders. It would also give authorities the financial resources to spend more time working with hard-to-house families and individuals. The higher fee should also apply to vouchers because vouchers are not cheaper to

administer. (Fees are based on the Fair Market Rent of a two-bedroom unit.)

21. Support legislation that gives PHAs more control over Section 8 Fair Market Rents.

Give PHAs better opportunities to present market data and argue for changes before HUD finalizes their area's Fair Market Rent.

Moreover, current HUD program rules should be changed to expand, not limit, the local availability of Section 8 subsidies. For example, HUD should count Section 8 annual contributions contract terms from the date budget amendments authorizing more units are approved, not the time the PHA's original ACC is executed.

Preparing for Tomorrow

Today's housing shortage will be dwarfed in the 1990's if the following trends go unchecked:

1. The expiration of Section 8 and housing voucher subsidy contracts on 1.2 million units of affordable housing by the year 2000.
2. The expiration of mortgage prepayment restrictions, which would allow private owners of an estimated 1.4 million units of affordable housing to pay off their debts and convert their properties to other uses by the year 2000.
3. The growth of the low-income population and the need for affordable housing and social policies that promote self-sufficiency.
4. The growth of the homeless population. (See Figure 9)

The previous sections of this publication offer cost-effective ways to expand the supply of affordable housing and help communities cope with this pending drain on their housing stock. But there are several specific actions that would produce more direct relief.

PHAs have the skills to keep privately-owned affordable housing available to low-



Youngsters learn computer skills after school at this Houston project.

income families. And, as skilled real estate managers, PHAs can efficiently channel federal funds to emergency projects and services aimed at the homeless.

But, to be a truly effective source of housing assistance, public housing (and federal housing policy) must work in concert with welfare reform, federal minimum wage and homeowner-ship policies.



A father and son make routine repairs on their St. Paul home, purchased through a local PHA-administered program.

Federal housing policy is only one lever for helping families lift themselves out of poverty. Only by integrating all these efforts can we expand the supply of affordable housing and strengthen the lives of American families and communities.

To accomplish these goals, we recommend the following:

22. Authorize public housing authorities to acquire units that would otherwise slip out of the affordable housing stock.

Establish an emergency purchase fund PHAs can use to acquire and operate privately owned low-income units that would otherwise be converted to higher cost housing. PHAs would tap this fund whenever private owners exercise their prepayment rights or federal rent subsidy contracts are not renewed.

The fund would not only provide owners with a fair return, it would prevent families from being "dumped" into the streets. Plus, an emergency purchasing fund would efficiently use an existing resource (public housing) to solve a new problem and avoid the problem of setting up a new delivery system or diverting funds away from public housing to solve a public housing problem.

23. Authorize special operating subsidies and modernization funds to house the homeless.

Allocate additional subsidies to cover the special costs of serving the homeless. Also, by creating a special modernization set-aside, empty public housing units could be quickly brought up to code and used by the homeless.

24. Support the use of SRO's to house the homeless.

Single Room Occupancy hotels and buildings provide a cheap, available supply of tempo-

rary shelter. Federal policy should encourage their use. Increasing public housing operating subsidies would encourage PHAs to use SRO units and cover the extra cost of their operation.

25. Reform federal labor, welfare and homeownership policies to expand housing opportunities for the poor.

Each of these areas can help thousands of families move up the economic ladder over the next decade. But the following changes are needed to better coordinate these policies with federal housing goals:

- Increase the minimum wage to give the working poor more economic power, the ability to afford better housing, and ultimately the financial means to move out of public housing and free up units for other families. The current minimum wage is far too low to provide a decent standard of living.
- Establish national minimum shelter grants under the welfare program to ensure clients can afford decent housing. And, instead of abruptly ending when families reach a certain income level, these payments should promote self-sufficiency by gradually tapering off when households find work and increase their earnings.
- Target more social services to public housing. Specifically, job training, day care and education programs to teenagers and single parent households and health care to the frail elderly.
- Finally, establish homeownership programs to help individuals at the upper end of public housing's income eligibility scale move out and buy their own homes. Programs like the new Nehemiah Housing Opportunity Grant program can not only promote the American dream among America's working poor, they can free up public housing for more families when public housing is in short supply.





City of New York
DEPARTMENT OF
HOUSING PRESERVATION AND DEVELOPMENT

ABRAHAM BIDERMAN
Commissioner

STATEMENT OF

THE DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT

OF

THE CITY OF NEW YORK

FOR THE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

U.S. SENATE

OCTOBER 12, 1988

The National Affordable Housing Act concept papers represent a first step toward the renewal of the federal government's commitment to housing, and a promising change in direction from the virtual inactivity over the past seven years. The City of New York strongly supports the overall intent of the Act — that is to strengthen and expand upon the federal role in the creation and preservation of affordable housing, to promote and enable increased homeownership, as well as to provide for special needs populations such as the homeless, elderly and handicapped.

As such, we would like to begin by commending Senators Cranston and D'Amato for their worthy efforts in proposing and developing this broad-based initiative. We welcome the opportunity to comment on the proposals contained in the staff concept papers and congratulate the Senators for the way in which they have sought out the input of a variety of local and national housing organizations. As a result, while we may disagree with some of the particulars in the Act, we believe that overall the authors have done a good job of incorporating the needs of localities into major portions of the legislation.

Of course, we are not able to offer a complete assessment at this time since too much of the proposal is still vague and undefined. We must reserve judgment on some parts of the legislation until they are clarified further, and look forward to future opportunities to comment on these portions of the Act as they are discussed and refined in the coming weeks. Nonetheless, we

have identified a number of substantive concerns in the proposal as currently expressed. We believe it is essential to modify these particular program components, if this initiative is to be truly effective. Our specific comments are as follows:

Homeownership:

In general, we support the proposal's efforts to make homeownership more obtainable for Americans of modest means. But, we have a few comments on the specific initiatives described. While we strongly support the proposed four year extension of the Mortgage Revenue Bond and Mortgage Credit Certificate programs, the proposal does not take into account a high cost housing adjustment factor. The Technical Correction bill (known in the House as the Miscellaneous Revenue Act of 1988) which is currently before Congress calls for income standards for the Mortgage Revenue Bond program to be raised to 140% of the area median income for high cost areas. We urge Congress to move swiftly on the passage of this bill, and ask that the authors incorporate this important revision in the Act. Without such an exception, the Mortgage Revenue Bond program would be unworkable in many areas with relatively high costs but low incomes. In New York City, for example, a family at the maximum allowable income for the Mortgage Revenue Bond program (which was recently raised to \$37,260) is only able to afford a home costing approximately \$103,000. At the same time, the average purchase price for an existing home in our area is roughly \$140,000. As a result of the current income standards, many moderate income families who could make use of the program are ruled ineligible, and the majority of those families who do qualify will be unable to find a home within their means.

The plan to increase FHA mortgage limits in high cost areas is very promising. Obviously, we will need more information about the exact structuring of the adjustment before we can determine if it will truly address our needs in New York City. We also support the proposal to allow for the use of IRA or 401(k) deposits toward the downpayments of first time homepurchasers, as well as the reduction in the FHA downpayment requirement. While we believe that this overall package of reforms can help close the affordability gap for some purchasers, we would caution that such efforts to promote and enhance homeownership opportunities must be used in combination with capital expenditure programs for homeownership such as the national Nehemiah Housing Opportunities Program or the proposed HOP homeownership component.

Preservation:

We echo the author's concerns about the need to retain and preserve the nation's supply of affordable housing for low and moderate income families. The City of New York is, currently, doing all that it can to achieve this end. As noted in the Act, Congress must fulfill the objectives established in the Housing and Community Development Act of 1987 of preserving the low-income affordability of HUD-owned and HUD-held multifamily housing and privately-owned, federally-assisted rental housing. In addition, federal assistance must be provided to ensure that, wherever possible, the nation's supply of affordable housing is retained.

Public Housing:

While we approve of the proposal to extend authorization for the Comprehensive Improvement Assistance Program to modernize the nation's stock of low income Public Housing, we are concerned that the Act appears to be silent on the issue of funding for new units of Public Housing. There is no doubt that the country needs new housing initiatives such as the HOP program, but they should not be entered into to the exclusion of existing programs such as Public Housing.

Low Income Tax Credits:

Obviously, more must be said on the issue of Low Income Tax Credits. We are concerned that to date the concept papers have nothing to say on this issue. In general, we support the findings of the Mitchell-Danforth Task Force. We are particularly concerned that the Tax Credits be continued. However, our more specific recommendation on this issue have been presented before the Select Revenue Subcommittee of the House Ways and Means Committee.

HOP Investment Certificates:

We are greatly encouraged by the proposed HOP Investment Certificate Program. If this program is enacted and adequately funded, it will be the first major Federal effort to increase the supply of affordable housing for low income families since the elimination of the Section 8 New Construction and Substantial Rehabilitation programs and the virtual defunding of new Public Housing units. We are also concerned that some of the program's

specific requirements would make it difficult if not impossible to administer in New York City and other parts of the country. In general, we believe that the program should be structured to more closely resemble the Community Development Block Grant (CDBG) program which has proven to be such a successful effort over the past 15 years. While we are not necessarily opposed to the use of HOP Investment Certificates, the authors' reasons for structuring such a complex program are not entirely clear.

We would now like to comment specifically on various points in the proposal. First, we endorse the utilization of a formula designed to measure need as a means to distribute the majority of funds. We also support the availability of a discretionary pool of funds which can be used to support innovative proposals from localities through out the nation. However, we believe that the states' role as an allocator of the formula funds should be limited to areas in which the locality is either too small to receive a subscription share or chooses not to participate. The City has an enormous housing program, its own development agency and expertise. The allocation of funds to two separate sources for use in a single jurisdiction can only cause unnecessary complication. Instead, we suggest that the CDBG entitlement model be followed. This will simplify the program and ensure that all formula funds arrive in the hands of those who are most experienced and capable of developing and administering housing programs.

We are also encouraged by the Act's emphasis on the need to create and sustain affordable rental and homeownership units for low income families. Unfortunately, until the income eligibility requirements of HOP assisted rental and homeownership units are actually defined, we cannot offer an informed

opinion on their appropriateness. However, we would like to emphasize our support for the inclusion of provisions which allow for the use of HOP assistance for mixed-income projects, since projects weighted too heavily toward very low income populations cannot be sustained without heavy operating subsidies. While some of the new rental credits will be available for the projects' lower income tenants, HOP units should not be made dependent on factors which are subject to eventual elimination or change.

In addition, while we support provisions to ensure that the low income rents are affordable, we do not believe that the rents on those units which are not low income should be strictly capped by the Federal government. The concept papers continually speak to the need to (1) create housing which is affordable to low-income households, and (2) maintain it for the "longest feasible period of time." To do this, states and localities must have the greatest possible flexibility in setting rents which will ensure project feasibility. Without this flexibility the program would work counter to the intent of its creators by destroying the potential of projects to sustain themselves long into the future without requiring heavy doses of federal subsidy.

Several other issues stand out in this section as ones in need of further clarification, the first being the issue of housing affordability and the repurchase of HOP Certificates. While it seems reasonable that repayment should be the logical end for projects which stray from the affordability guidelines set by the program, the idea of a project remaining affordable indefinitely is at best problematic. If the goal of the program is to maximize the length of time in which a project remains affordable, a set number of years should be mandated during which the project is obligated to

remain affordable -- while allowing for the possibility for renewing or extending this period once it has been reached. Without such limits, in practice, the program could become largely unstable and unworkable.

Also, without an assurance that the rental credits (or whatever subsidy is used to support low-income tenants in HOP assisted housing) will continue beyond the initial five year contract period, it is not reasonable to assume that the housing will remain affordable and economically viable for its general "useful life." As such, we propose the authors (1) set a fixed time period as minimum time in which HOP assisted housing would remain affordable, and (2) back this up with the assurance of rental credits for HOP assisted units for the same period of time. Without the latter assurance, the program could become only a hollow promise.

The proposal calls for the repurchase of the new HOP certificates at the point in which the housing loses its affordability status. At this point, the funds have long been spent and repurchase would have only come about with the state or locality's own funds. Many localities would be forced to create reserve funds for this purpose, thus holding money to the side which could have been used to create more affordable housing. As an alternative to this, we would like to propose a reduction in the pool of outstanding certificates (i.e. those not yet cashed in) rather than an outright repayment of the funds.

We need to know more about issues such as: the role of federal oversight in the HOP program; specifically, what is meant by the words "limited discretion" and "reasonable time" in the discussion of the timing of HOP activities; how and when the timing of repayments would take place; as well as a full

accounting of when and how the funds could be drawn down, i.e. certificates purchased. These are critical issues since it is essential that the City have access to funds when they are needed without each time having to negotiate through a maze of checks and requirements.

On a related issue, a reference is made to a 60 day deadline for HUD approval of a state or locality's housing strategy. Later, the act calls for a 90 day deadline for approval. Issues such as these must be clarified and laid out in far greater detail before we can begin to assess them further.

We commend the authors for their insight in incorporating in the Act a provision which would permit states and localities to recycle HOP funds. Such measures are essential if the funds are to be used in the broadest possible sense and affect the greatest number of people and projects. We are concerned, however, about the wording of the Act's restriction on the use of not more than 25% of HOP funds for "publicly-owned housing." We believe that the intent of the phrase refers to "Public Housing" under the 1937 Housing Act and excludes municipally-owned housing such as New York City's in-rem stock obtained through tax foreclosure. However it is essential that this fact is clearly stated in the law. The City's 5,000 vacant and 4,500 occupied in-rem buildings constitute the focus of a major portion of our efforts to create and preserve housing resources for low income New Yorkers and a major portion of the City's \$5.1 billion Ten Year Plan for Housing. Once rehabilitated, many of these buildings will be returned to private ownership. These efforts are essential to ensure both the revitalization of neighborhoods devastated by widespread abandonment and the promise of decent living standards for the least well housed among us. Consequently, it is critical that the City be allowed to use federal resources to address this stock of buildings.

Our final areas of concern about the HOP Certificate proposal relate to the issues of annual fees and the leveraging requirements. We would propose a more straight-forward approach to funding in asking that all fees, as such, be eliminated from the legislation. It does not seem productive to give localities funding on the one hand, and then charge them for that privilege on the other. With regard to the matching requirement, we feel strongly that cities and states should be required to provide funding for programs like HOP which create local housing resources and, as always, we are committed to providing these funds. However, in light of the long term low income requirements of the program and the fact that these guidelines will allow little if any room for profit, it is unreasonable to expect a large amount of private sector investment. If the states and localities can leverage private money with these funds, it will be to their benefit. But, states or localities should not be prevented from using HOP funds or individual projects precluded from participating for lack of a private leveraging component.

Rental Credits:

We support the provision which would allow states and localities to choose whether their rental assistance (in the form of Rental Credit) would be project based. States and localities must have the ability to utilize rental assistance to support low-income tenants on projects which they develop, either singlehandedly or in partnership with private or federal sources. However, this benefit will not be realized if the rental assistance is short-term or unreliable by nature.

As described earlier, in conjunction with our recommendations for amending the HOP program, a commitment to supply rental credits for more than five years will be necessary to both attract the participation of private owners and ensure that, once created, assisted units remain affordable. Again, we would like to reiterate our conviction that a long-standing commitment to the rental credit program must be assured in order to see to it that HOP and other assisted housing does remain affordable for the "longest feasible period of time." To achieve this, the same contract standards should apply to both the HOP and rental credits programs. For example, if projects were required to remain affordable for a minimum of fifteen years, rental credit contracts would last for the same duration. The proposal outlines a system in which project owners would commit a specified number of units to low-income families for a specified number of years on the condition that they would, theoretically, be supplied with rental credits for that period, assuming that the Congress continued to renew expiring credits. However, it is not reasonable to expect that project owners would take this risk.

Finally, the income eligibility requirements for rental credits make allowances for tenants in federally-assisted projects whose incomes are between 50 and 80% of the area median in order to avoid their displacement. This provision clearly recognizes the fact that occupied projects receiving government assistance are likely to contain a mix of low income tenants, including families between 50% and 80% of median, as well as families below 50% of median. Clearly rental assistance is often essential to avoid the displacement of these low income families. We believe that if states and localities are truly going to be given the discretion to administer the new rental credits that they must be allowed to use them in state and

municipally-financed projects as well as federal projects. Like federal projects, many of the low income tenants in need of assistance in these buildings have incomes between 50% and 80% of median income. In fact, since the federal Relocation Act defines the group of tenants which states and localities must guard from displacement as those with incomes below 80% of median, Congress has an obligation to see to it that future legislation supports rather than confounds these efforts. Therefore, in order to avoid the unwarranted displacement of current and future residents of state and municipally-assisted housing, we would argue in favor of extending this exception to all governmentally assisted projects.

Supportive Housing:

We strongly support the Act's provision which would extend the authorization for the Stewart B. McKinney Homeless Assistance Act and reform its funding procedures to (1) let states and localities decide how best to allocate the funds and (2) allocate resources through a formula that takes into account the regional incidences of homelessness. However, we believe the program should be revised to permit the use of these funds for the development of permanent housing. To date, the Department of Housing Preservation and Development has rehabilitated 15,000 units of permanent housing for the homeless with another 15,000 units will be rehabilitated with funding from the Ten Year Plan. While we recognize the need to continue to fund and support transitional housing, homeless housing should not be an either/or proposition. Both transitional and permanent housing opportunities must be created to stem the tide of homelessness nationwide.

Though we approve, in principle, of the concept of forgivable loans and the reworking of the Section 202 program to avoid the problem of double budget authority, again, these proposals are too sketchy to warrant additional comments at this time.

By way of conclusion, we would like to stress the need for adequate funding of these proposals. Senators Cranston and D'Amato have, in the development of these concept papers, demonstrated a willingness to dedicate time, energy and resources toward the goals of creating and preserving affordable housing. Now, however we must see a willingness to back their efforts with full funding of these and future proposals. Again, we commend the Senators for their efforts and thank the other members of the Subcommittee for this opportunity to share our views.

915 15th Street, N.W., Suite 900, Washington, D.C. 20005-2375, 202-783-4963



September 28, 1988

Senator Alan Cranston
Chairman
Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing and Urban Affairs
United States Senate
Dirksen Senate Office Building, Room SD-535
Washington, DC 20510

Dear Mr. Chairman:

I am pleased to submit on behalf of the International Downtown Association (IDA) the enclosed statement for the record in connection with your September 1988 hearings on the National Affordable Housing Act: Staff Concept Papers.

In brief, we make these points:

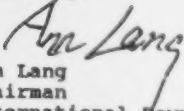
1. Downtowns and their adjacent neighborhoods represent both a tremendous investment and source of future strength for the nation. They should be preserved, and their resources enlisted in full to serve future generations.
2. There are new opportunities to create affordable housing together with development in downtowns and close-in neighborhoods. IDA's members are well-positioned to pursue and expand these opportunities through their experience in forging public-private partnerships, and access to the resources of the growing number of non-profit groups and private firms engaged in housing.
3. New or revamped housing legislation should be designed to mobilize the creative energies of these groups and firms, and to be responsive to the special circumstances and full range of housing needs in center cities.

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Senator Alan Cranston
Subcommittee on Housing and Urban Affairs
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Page Two

We look forward to working with the Subcommittee and its staff in the coming year as its legislative proposals are revised and drafted in detail. We would welcome an opportunity to appear before the Subcommittee early in its hearing schedule next year.

Sincerely,

A handwritten signature in cursive script that reads "Ann Lang". The signature is written in dark ink and is positioned above the typed name and title.

Ann Lang
Chairman
International Downtown Association

President
New Center Area Council
Detroit

Enclosure

915 15th Street, N.W., Suite 900, Washington, D.C. 20005-2375, 202-783-4963



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Statement

of the

International Downtown Association

to the

Subcommittee on Housing and Urban Affairs

United States Senate

on the

National Affordable Housing Act --

Staff Concept Papers, August 12, 1988

Submitted for the Hearing Record

September 29, 1988

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Mr. Chairman and Members of the Subcommittee:

The International Downtown Association (IDA) appreciates the opportunity to provide comments on the August 12, 1988 Staff Concept Papers for the National Affordable Housing Act. It commends Subcommittee Chairman Alan Cranston and Ranking Member Alphonse D'Amato for their leadership in bringing housing issues to the forefront of the nation's agenda and initiating a sweeping reexamination of federal housing policy.

IDA is the professional association of redevelopment and management specialists dedicated to the revitalization of downtowns and their adjacent neighborhoods. For three decades, IDA has represented downtown organizations and affiliated interests including public agencies, institutional investors, developers and design firms in cities of all sizes throughout the United States and Canada. Its members, now numbering some 400 in well over 200 U.S. cities, have led successful revitalization efforts in center cities and their nearby neighborhoods, and pioneered in the formation of public-private partnerships, preservation and reuse of older structures, and the creative management of downtown's assets.

The preservation and creation of housing to meet a range of housing needs in the center city is of major concern to IDA members. Our continuing objective is 24-hour downtown communities in which people can live, work, shop and enjoy themselves in attractive, secure and convenient environments. A strong residential base fosters security and better schools. Decent and affordable housing is needed to attract and retain

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downtown businesses and jobs, and as a necessary adjunct to investments in transit, office buildings, retail centers and social and cultural amenities. In many of our center cities, housing costs are rising out of sight. A critical current concern of our members is the shelter and service needs of an increasing population of homeless people who make downtown streets and parks their domicile of last resort.

Support for downtown housing by IDA member organizations takes a number of forms. It may be advocacy or marketing. It may be planning, fundraising, or financial packaging. It may be acquisition of land or structures for development or renovation by others. It may be direct management and development of housing projects. Whatever role is assumed, it usually involves a public-private partnership, significant enlistment of business community support, and complex negotiations to tap all possible funding sources. Increasingly, it means forming or assisting private sector non-profit or profit-making groups that undertake actual production and management of housing.

It is from these varied perspectives that we offer our comments on the Subcommittee's Staff Concept Papers.

We wish at the outset to express our strong support for the four organizing principles presented by Senator Cranston in his June 8, 1988 speech to the National Housing Conference:

- o building on what works;
- o expanding a system of responsive institutions;
- o providing federal support that is flexible and adaptable to differing local conditions; and
- o addressing the housing needs of all Americans.

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Indeed, these are principles we emphasize in a general IDA policy statement entitled "America's Downtowns: National Assets for the 1990s," issued earlier this year. They will serve well as a framework for our comments.

A. BUILDING ON WHAT WORKS

We offer several considerations, which have to do with places that work, approaches that work, and programs that work.

First, it is important that federal housing programs, whether grants, rent subsidies, tax incentives, insurance or guarantees be accessible to downtown and its surrounding neighborhoods and not discriminate against these areas. We will have more to say on this under "flexibility." The main point here is that downtowns are places that work -- they are job centers, the economic hubs of regions and states, places where enormous human, physical and capital resources are concentrated. They can be made to work better. Housing opportunity for all income levels is an important means to that end.

Further, housing investments in the center city allow efficient use of resources. Transportation networks, water and sewer systems, cultural institutions, government offices, school buildings, whole neighborhoods, are all in place in the center city. They require refurbishment in numerous instances. But they are far more expensive to replicate elsewhere, and are still depended upon by many, many people.

A related observation is that high-rise concentrations of low-income housing do not work in downtown or in most other places where such housing has been located. Our experience leads us to

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prefer the development of economically integrated neighborhoods with affordable housing for mixed income levels. A variety of housing opportunities should be available throughout downtown and its neighborhoods.

Approaches that work, in our experience, include the use of public dollars to leverage significant participation from the private sector. Programs that have an element of competition foster quality and efficient use of resources. But this approach should not be used at the expense of unmet need. We favor block grants for their relative ease of administration and the room they allow for local circumstance and choice. (The Subcommittee staff concept of Housing Opportunity Partnerships has the laudable objective of federal investment in housing strategies designed by states and localities. But the proposed investment certificate mechanism seems likely to dilute this objective and to run counter to the Chairman's standard of understandability and straightforwardness.)

Longevity and predictability are program (and tax code) characteristics that are as important to housing development as adequate dollars, and that have been in equally short supply in recent years. It is encouraging, therefore, to note the proposed five year duration of commitments to purchase HOP Investment Certificates.

An approach that should work to increase the supply of affordable and decent housing even in high cost center cities is the profit motive. It is important to redouble efforts to understand how to make this happen.

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Programs that work, and that we want to cite here, are not all or even mainly devoted to housing. But they help to illustrate approaches that work, and offer useful models to build on. UDAG and CDBG are programs that have worked. Rehabilitation tax credits have also worked. But they worked better prior to the imposition of the passive loss restrictions and extended depreciation times of the 1986 Tax Act. As a combined effort to promote housing production through the tax-writing and banking committees, we would urge reconsideration of those restrictions to reinstate conditions that favor private investment.

Mortgage revenue bonds have worked, although they have tended to favor single-family housing and have been difficult to use in center cities. The low-income housing tax credits have also worked despite the many restrictions on their use. We support their extension as an urgent priority, particularly since there is little else in place at this time to encourage private sector investment in such housing. The Community Reinvestment Act has been a useful tool in helping to ensure better access to the resources of local financial institutions for housing and other purposes.

B. RESPONSIVE INSTITUTIONS

An expanding system of responsive institutions must include not only existing government agencies and quasi-public groups formed under their auspices, but also the many private sector non-profit groups and profit-making corporations that have become involved in housing production, rehabilitation and management in recent years. IDA member organizations active in the promotion of affordable housing work with community foundations, national non-

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profit organizations such as Neighborhood Housing Services of America, the Enterprise Foundation, the Local Initiatives Support Corporation, community development corporations, and representatives of local and national financial institutions such as banks and insurance companies as well as other corporations making socially responsive investments.

We applaud the Subcommittee's recognition of the increasing role these groups have assumed in meeting housing needs, and its proposed requirement that state and local housing strategies "identify methods for mobilizing necessary non-governmental resources." We also think that the proposed capacity-building activities of the HOME Corporation will be useful.

We think that eventual legislation should go considerably further, however, in enlisting the creative energies of private firms and non-profit organizations. Perhaps these groups should be made eligible for the national competition through which 20 percent of the funds for the proposed Housing Opportunity Partnerships would be allocated. Perhaps there should be required set-asides at the local level. Perhaps private sector funds should be counted as part of the local match that would be required to receive HOP support. Another suggestion is that major employers be encouraged through specific incentives to provide support for employee housing.

Whatever the mechanisms selected, they should accord a role to these groups and firms that effectively taps their successful experience and challenges them to add to the work they have already accomplished.

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Populations with special needs are concentrated in cities. We particularly welcome, therefore, the Subcommittee's attention to the need to couple shelter with supportive services -- for the homeless, the elderly, the handicapped and public housing tenants. We share the Subcommittee's concern that these services not only command significant local support but that they also be much better coordinated. These objectives may not be well served, however, by channeling all federal housing aid for the homeless, for example, through state and local agencies. A more effective inducement to coordination might be to require non-profit agencies to show how their activities fit into a larger local picture as the price for their direct access to federal assistance.

C. FLEXIBILITY AND ADAPTABILITY TO DIFFERING LOCAL CONDITIONS

Flexibility and adaptability are essential program features if center cities are to benefit from new or revamped federal housing legislation. Existing programs, and particularly those of FHA, are still biased toward new construction, homeownership, and single family dwellings. In their administration, moreover, these biases may be reinforced. Conventional underwriting standards, for example, that seek comparables in the immediate neighborhood, may lead to rejection of the financing that is sought.

We believe the proposals of the Subcommittee staff to ease FHA downpayment requirements and lift price ceilings are good steps to improve access to the program for moderate income first-time prospective homebuyers. But these steps may do little for downtown and its neighborhoods.

The special circumstances of center cities include high construction and land costs, and neighborhoods where abandonment and population loss are the principal problems. Multifamily rental housing, with federal mortgage insurance, may be the greatest need. Or it may be refinancing for the upgrading of owner-occupied older housing. Or it may be combined commercial

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and housing rehabilitation, along with infrastructure, to bootstrap a still viable neighborhood. Or it may be infill that will make a difference. But the structures needed may be small and highrise or otherwise atypical. Or there may simply be an urgent need to acquire land before its price rises beyond any marketable housing.

Median income in the metropolitan area is better as an affordability measure than national median income. But it may still exclude otherwise qualified and needed housing development in the center city. Eligibility criteria need to take account of median price as well as median income.

Mixed income projects downtown, in order to be feasible, may require cross-subsidies, or more market rate units and fewer affordable units than guidelines permit. They should not thereby be excluded from federal assistance. Moderate rehabilitation may be a greater need and more cost effective than major rehabilitation. It should be eligible for assistance. Mixed-use projects that include housing are being planned and built in some downtowns. But they are stepchildren under current programs. And this was the case for SROs until recent homeless legislation.

D. ADDRESSING THE HOUSING NEEDS OF ALL AMERICANS

We have described above some of the special needs and circumstances of downtowns and their neighborhoods that we hope the Subcommittee will take into account as it crafts legislation in the remainder of this Congress and the new Congress next year. Without dismissing the acute need that is all too evident in many of our downtowns, we would stress our confidence that housing for a wide range of needs and incomes can be built and preserved in the center city, and that opportunities are at hand to move decisively in that direction.

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This attitude is based on the accomplishments of our members, their affiliates and partners in creating affordable and mixed income housing in cities across the country. We cite only a few here: The work of the Seattle Housing Resources Group in Seattle, Lexington Village in Cleveland, the Center City Development Corporation's success in creating housing for a range of incomes in San Diego, the pioneering mixed income Bedford-Pine development by Park Central Communities in Atlanta, the Ninth Square in New Haven, Charlotte's Fourth Ward and the Towers on the Park in Harlem.

We commend the Subcommittee's attention to the many dimensions of America's housing needs, and its responsiveness to the aspirations of all our citizens. In turn, we wish to stress our belief in the interdependence of downtown, close-in neighborhoods, the city as a whole and the metropolitan area. We do not believe that difficult choices in priorities should be couched in ways that pit parts of a region against one another. We ask recognition that downtown and its neighborhoods, working together, represent both a tremendous investment and source of future strength for the nation and that they have an opportunity to realize their full potential to serve future generations.

The International Downtown Association is currently carrying out a survey of its members to learn more about their activities in housing, the techniques they have used, the obstacles they have encountered, and their accomplishments. We will be happy to share the results of this survey with the Subcommittee when they become available at the end of this year. We look forward to working with the Subcommittee and its distinguished Chairman and Ranking Member in the coming year as its legislative proposals are revised and drafted in detail. We would welcome an opportunity to appear before the Subcommittee early in its hearing schedule next year.



NATIONAL MULTI HOUSING COUNCIL

Suite 620 • 1250 Connecticut Avenue N.W. • Washington, D.C. 20036 • (202) 659-3381

October 11, 1988

The Honorable Alan Cranston
Chairman, Subcommittee on Housing
and Urban Affairs
112 Senate Hart Office Building
Washington, DC 20510-0501

The Honorable Alfonse M. D'Amato
Subcommittee on Housing and Urban Affairs
520 Senate Hart Office Building
Washington, DC 20510-3201

Dear Senators Cranston and D'Amato:

I am writing on behalf of the National Multi Housing Council ("NMHC"), in connection with the recent hearings of the Subcommittee on Housing and Urban Affairs on the formation of a new national housing policy. We share your interest in developing a responsible and effective housing policy and appreciate this opportunity to provide our views on the content of such policy.

Based in Washington, D.C., NMHC represents the interests of the largest and most prestigious organizations in the country participating in the multifamily rental housing industry. NMHC's members are engaged in all aspects of the development and operation of rental housing, including the building, ownership, financing, management and conversion to condominium of such properties. Together, its members are responsible for hundreds of thousands of rental units.

NMHC supports the Subcommittee's efforts to define a new role for the federal government in ensuring an adequate supply of affordable housing. We believe the federal government has an important role to play, in conjunction with state and local governments. We also believe that the key to the success of any new housing program will be its ability to draw on the resources and experience of those major developers who have proven their ability in the marketplace to produce affordable rental and other housing.

As a national organization representing developers and owners of rental property, our comments focus principally on

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proposed policy for the rental housing market. The central and critical problem facing the U.S. housing market -- and, in particular, the rental housing market -- is, in certain areas, the inadequacy of housing supply and the inability of the free market to respond to demand. In NMHC's view, there is no more serious or perverse barrier to an expanded supply of rental housing in areas of shortage than local rent control laws. These laws, which vary from jurisdiction to jurisdiction, impair the operation of both the marketplace and the numerous existing Federally-sponsored housing programs.

NMHC therefore believes that Federal preemption of local rent control laws must be an essential and central component of any new housing policy. More specifically, NMHC suggests that any new legislation adopted pursuant to a new Federal housing policy should prohibit state and local governments from enacting rent control laws that interfere with or impede the goals of Federal housing policy. This fundamental principle of Federal-state relations is implicit in existing law and already has been relied on by the Department of Housing and Urban Development in identifying the circumstances in which the Department will preempt local rent control laws.^{1/}

In support of a Federal preemption policy, NMHC wishes to bring to the Subcommittee's attention two recent publications on rent controls, copies of which are enclosed.

^{1/} In preempting local rent controls, HUD has recognized that limiting the "upside" to investing in rental property enhances the possibility that such rental income will not be sufficient to cover the costs of operating and maintaining a rental property and, consequently, that mortgage loans to owner/mortgagors will be "bad mortgages." HUD regulations specify that:

HUD will preempt the regulation of rents . . . when the Department determines that the delay or decision of a board prevents the mortgagor from achieving a level of residential income necessary to maintain and operate adequately the project, which includes sufficient funds to meet the financial obligations under the mortgage.

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The first is a major new study on rent control by noted housing economist Anthony Downs, which found that rent controls are an ineffective and often counter-productive response to rising housing costs. The principal finding in the study is that residential rent controls generally worsen housing shortages and fail to combat the lack of income, which is at the root of most housing problems for poor and lower-income families.

The study — Residential Rent Controls: An Evaluation -- was sponsored by eleven national and regional organizations concerned with housing issues, many of which oppose rent controls. In Dr. Downs they found a non-partisan expert widely recognized for his work on housing issues to conduct a thorough and objective study of the economics and social implications of rent control. Dr. Downs is a Senior Fellow at the prestigious Brookings Institution, was a member of the Douglas Commission on Urban Problems and a principal consultant to the Kerner Commission on Civil Disorders, and has written or co-authored 15 books and more than 300 articles on housing and other issues.

After reviewing all the available literature and empirical studies on rent control, Dr. Downs found that rent controls generally are "neither an appropriate nor effective response to perceived housing shortages." In particular, he found that "the social and economic costs and disadvantages of rent controls -- especially over the long run -- almost always outweigh any perceived short-term benefits they provide."

Among the study's other principal findings are that:

-- rent controls make sense only when demand for new housing is rising sharply at the same time that new construction is legally restricted in order to conserve resources, such as during time of war. Rent controls are not economically justified during periods of rapid inflation or when a community artificially restricts new construction;

-- there is substantial evidence that many of the short-term benefits of rent control (in the form of reduced rents) aid affluent rather than poor households, and that many of the costs (in the form of reduced access to housing or deteriorating housing stock) must be borne by poor and single-parent households; and

-- not all rent controls are alike, with stringent rent controls imposing greater social and economic costs than their more temperate counterparts.

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The second publication, which is entitled The High Cost of Rent Control, describes the essential role played by rents in a market economy and outlines the range of economic and social costs associated with rent control. It notes, among other things, that rent control laws (1) inhibit new construction; (2) accelerate deterioration of existing housing; (3) reduce property tax revenues; (4) impose substantial administrative and related costs on local governments, as well as owners and tenants; and (5) reduce tenant mobility. It also notes the growing body of empirical evidence that these rent control costs tend to fall disproportionately on the poor, while in many communities middle class households receive the lion's share of the benefits of rent control.

The Downs' study and the studies on rent control that preceded it clearly demonstrate that rent control is an ineffective and often harmful housing policy. Nonetheless, local rent controls continue to proliferate around the country, severely restricting the quantity and quality of rental housing. More than 200 communities currently impose some form of rent controls. Virtually all are located on the east and west coasts, where rental units make up an important part of the market.

It has become all too obvious that no amount of evidence demonstrating the inefficacy of rent controls -- and indeed the very substantial harm to the poor -- will convince local officials in these communities to abandon uneconomic and irresponsible rent control laws. NMHC therefore believes the time has come for Federal intervention to prevent the continued impairment of the rental housing market. Preemption of all such local laws, at least to the extent they interfere with or impair Federal housing policy, should be an essential and central component of any new housing policy.

Preemption of local rent control laws will improve both the quantity and quality of rental housing available to the poor. At the same time, a new Federal housing policy should provide -- as it already does in limited form -- for direct financial assistance to low-income tenants unable to afford available housing (both in the current controlled market and in a future uncontrolled market).

The crafting of a new housing policy will require a careful blending of mechanisms (including the preemption of rent controls) to stimulate the supply of housing in areas of shortage with direct financial assistance to needy renters. Over time,

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the expansion of the rental housing supply in such areas will lead to a decline in rent levels. In the interim, financial assistance to the needy can most efficiently and economically be provided through direct subsidy programs, including income transfers under existing law.

It bears noting, however, that financial assistance to the needy -- whether in the form of direct subsidies or counter-productive rent controls -- cannot alone resolve the fundamental problem facing the rental housing market -- that of inadequate supply in areas of shortage. Only a policy that combines financial assistance with direct stimulation of supply factors in the market can hope to resolve this problem.

* * *

We thank you for this opportunity to comment on the form of a new Federal housing policy and look forward to the opportunity of working with you and your staffs in future months to develop an effective and fair housing policy that satisfies the needs of both consumers and producers of housing.

Respectfully submitted,

Jonathan L. Kempner

Jonathan L. Kempner
President
National Multi Housing Council

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